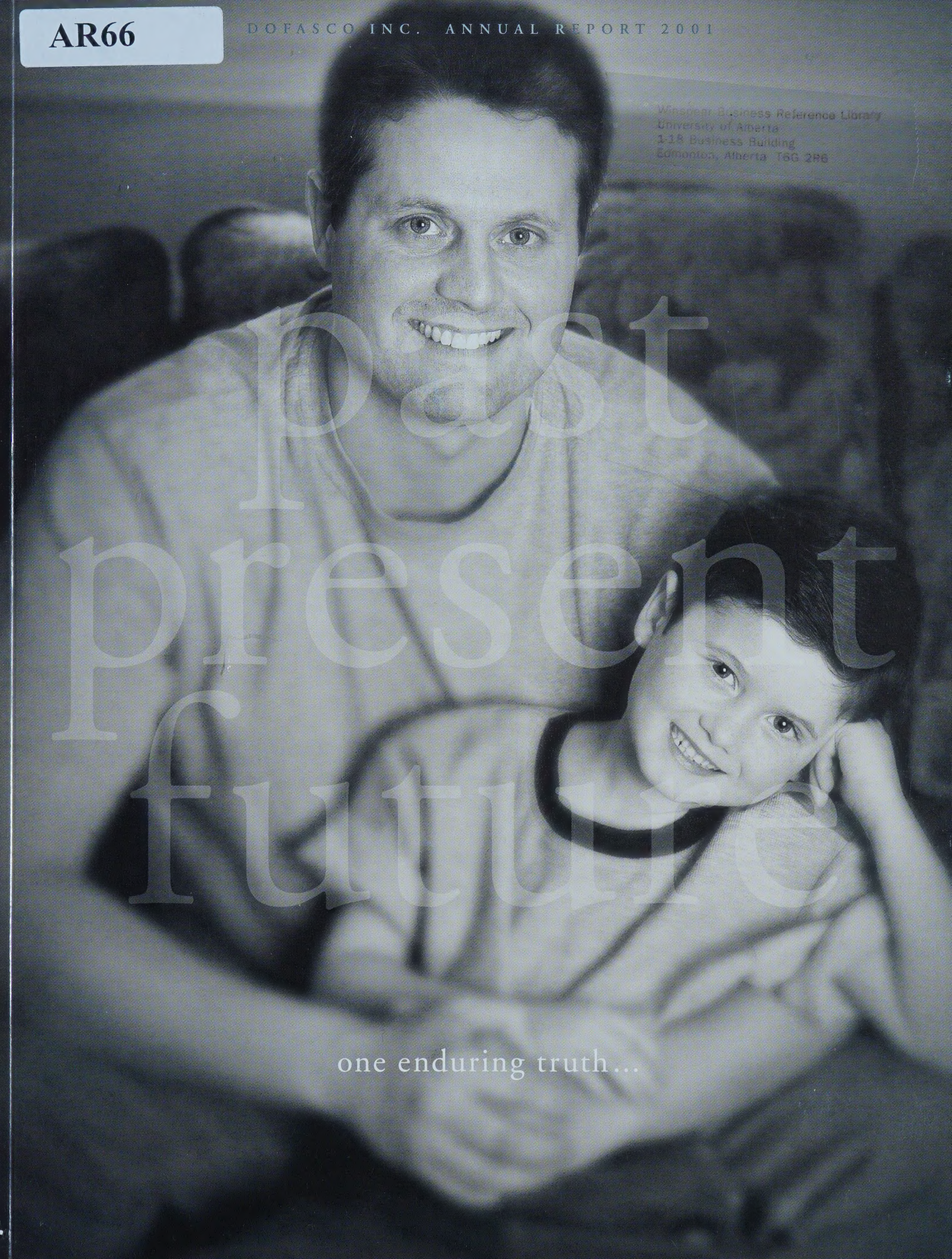
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one enduring truth...

Cover photo: Neil McBurney of Dofasco's Steelmaking department with his son, Ryan.



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... our strength is people

In meeting the many challenges of 2001, it was clear that putting people first keeps Dofasco first. In everything we do, we strive to satisfy the needs and aspirations of people. This philosophy has set Dofasco apart in the past and will be the key to our future growth.

PROFILE

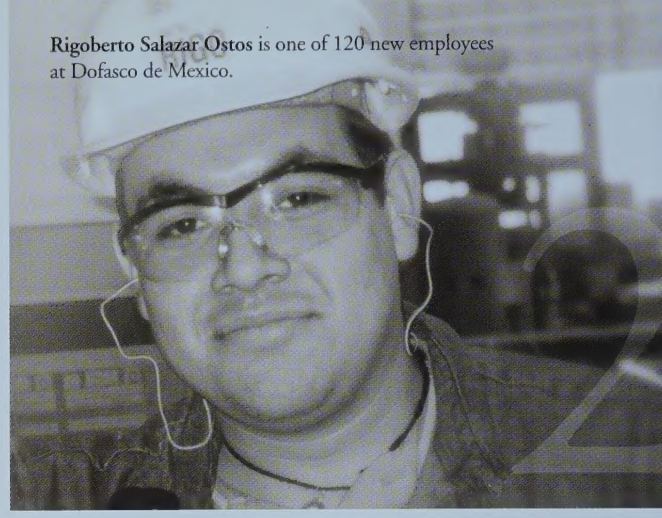
Dofasco is Canada's most successful steel producer, serving customers throughout North America with high quality flat rolled and tubular steels and laser-welded blanks.

Dofasco's advanced facilities in Hamilton, Ontario, produce hot rolled, cold rolled, galvanized, Extragal™, Galvalume™, tinplate, chromium-coated and prepainted flat rolled steels, as well as tubular products. Gallatin Steel, the company's joint venture minimill in Kentucky, produces hot rolled steels. Dofasco de Mexico, Dofasco's wholly-owned subsidiary, produces tubular products in Monterrey, Mexico. Powerlasers, also wholly-owned, manufactures laser-welded automotive blanks and related components in Concord, Ontario and Pioneer, Ohio.

Dofasco's strategy provides the foundation for sustainable growth and increased value for all our stakeholders by differentiating the company in the marketplace. That strategy has four main elements:

- *Solutions in Steel*™, which builds strong customer relationships by employing new and unique technologies to produce value-added products;
- operational excellence, which results in maximum operating performance, reflecting our focus on improving what is important to our customers;
- a knowledgeable, resourceful and dedicated workforce that flourishes in an environment rooted in Dofasco values and that rewards performance and innovation; and
- financial strength, which enables us to invest and grow with our customers.

Spanning generations: Dofasco retiree **Joseph Long** (left) with his son **Dave**, a current Dofasco employee, and granddaughter **Shannon**, who participated in Dofasco's summer student employment program.



Rigoberto Salazar Ostos is one of 120 new employees at Dofasco de Mexico.

Throughout our 2000 annual report, we identified many challenges that Dofasco must address to remain successful. In order to be accountable to our shareholders, the following summarizes our performance in 2001 related to those challenges.

setting industry standards

achieving goals

OBJECTIVES	PERFORMANCE
Short-term Challenges	
• Work towards a goal of an accident-free workplace.	• Continued to implement health and safety improvement initiatives and maintained focus on improving performance.
• Respond to deteriorating market conditions by reducing costs and conserving cash.	• Market response plan generated savings of more than $100 million and deferred $30 million in capital expenditures.
• Bring Dofasco de Mexico on stream.	• Dofasco de Mexico began commercial production in December 2001, ahead of schedule.
• Complete ISO 14001 registration of all Dofasco Hamilton operations by end of 2001.	• Registration to the ISO 14001 Environmental Management System standard was completed.
• Continue to seek fairness in international steel trade.	• Filed unfair trade cases in Canada and the U.S. and participating in process to address problem of excess, uneconomic global capacity.
Long-term Strategic Initiatives	
• Capitalize on sustainable financial strength and overall strategy to remain financially strong, despite occasional industry downturns.	• Dofasco was one of only a few profitable steelmakers in North America in 2001.
• Proceed with strategic investments that will continue to differentiate Dofasco from competitors.	• Completed hot mill, tin mill and Galvalume™ upgrade programs and installed Zyplex™ manufacturing facility.
• Lead North American steel industry in environmental performance.	• Met or surpassed all legislated environmental performance requirements, as well as voluntary commitments.
• In future annual reports, report progress in a way that reflects commitment to sustainability.	• Integrated approach (financial, environmental, social well-being) to annual report provides more complete disclosure to all stakeholders.



Dofasco's **Donna Hebb** and her dog, Valrhona, volunteer at the St. John Ambulance Therapy Dog program in Hamilton.

2001 HIGHLIGHTS

- Named one of the world's most sustainable companies by the Dow Jones Sustainability World Index for the third consecutive year. For the second year in a row, named the leader of the Basic Resources sector of the index.
- Earned net income of $26.7 million, the only integrated and one of only a few of all North American steelmakers to earn a profit in 2001.
- Maintained an excellent customer service record, ranking second among 27 major North American steel suppliers in an industry-recognized survey on overall customer satisfaction, addressing such categories as service, on-time delivery, quality and price.
- Achieved ISO 14001 registration at Dofasco's Hamilton operations.
- Continued to implement health and safety programs across the company, maintaining our commitment to an accident-free workplace.
- Maintained our commitment to the well-being of our communities by supporting, through contributions of time, expertise and money, all facets of the community – economic development, education, arts and culture, health and athletics.

	2001	2000
Raw steel production and purchased semi-finished steel processed (thousands of net tons)	4,955	5,009
Steel shipments (thousands of net tons)	4,375	4,416
Sales*	$ 2,962.5	$ 3,201.1
Net income*	26.7	188.7
Net income attributable to common shares*†	26.1	188.1
Earnings per common share† – basic	0.35	2.47
– diluted**	0.35	2.46
Dividends declared per common share	1.08	1.06
Capital expenditures*	$ 203.9	$ 216.0
Working capital*	$ 878.8	$ 842.9
Shareholders' equity*	1,817.6	1,852.5

* in millions † after preferred dividends ** Restated – see note 2 to the consolidated financial statements

2001 was a year of extraordinary challenges for the North American steel industry. It was the year we had been preparing for. Dofasco people remained focused and executed our strategies with excellence. Our results reaffirm one enduring truth – Our strength is people.

investing in our future

setting ourselv

It has been said that it takes a lifetime of hard work to become an overnight success. That's how we felt when observers were surprised by Dofasco's performance in 2001.

While it was a year of extraordinary challenges for the steel industry, at Dofasco it was an example of what can be accomplished when an entire company has a thorough understanding of what is happening around it, yet remains focused and acts on those things that it can control.

2001 was the culmination of several years of change and focus at Dofasco. It was the year we had been preparing for when we launched our strategy that was designed to generate profitability at all points in the business cycle and to differentiate Dofasco among customers. This past year, it differentiated Dofasco within the North American steel industry.

We made a profit in 2001. And while our financial results did not meet our ongoing expectations nor the needs of our shareholders, it was an excellent performance in a year when the steel industry was at its lowest ebb in more than a decade. In fact, Dofasco was the only integrated steelmaker, and one of only a few of all North American steelmakers, to report a profit.

We continued to improve relationships with our customers. We continued to invest in our future and in meeting our customers' future needs. We continued to offer challenging and rewarding employment to more than 7,800 people at our operations in Canada and the United States, and for the first time, in Mexico. We worked with our suppliers to ensure they remain an active part of our value chain. And we continued to contribute to the social and environmental well-being of Hamilton and the other communities where we operate.

In the end, we relied on one enduring truth – Our strength is people – to get us through the year successfully. It should come as no surprise that the same people who put Dofasco at the top of the North American steel industry, kept us there during a very tough year. And, it is fair to say that we emerged from the year smarter and stronger than when 2001 started.

A Strong Comparative Performance

The facts and statistics tell the story of our strong comparative performance in 2001.

Steel demand was soft and prices continued to fall from their already low levels at the end of 2000. Imports continued to flood North American markets, many of them unfairly traded. Excess global capacity in the steel industry – estimated in the range of 200 to 300 million tonnes a year – continued to have a critical impact on steel prices and therefore steel profits.

More than two dozen North American steel producers have filed for bankruptcy protection in the past three years. Almost all steelmakers lost money in 2001. Dofasco recorded a profit.

The North American steel industry operated at less than 75% of capacity in 2001, meaning a quarter of its production capability was not being used. Dofasco operated at 100% of primary steelmaking capacity all year.

As a result of the fundamental structural problem of excess world steelmaking capacity, many North American steelmakers are struggling to survive. They are shutting down operations, liquidating and selling assets, renegotiating labour agreements, laying off employees and seeking government assistance. Dofasco invested more than $200 million in 2001 – and almost $1 billion in the past 5 years – to improve existing operations, build new facilities and acquire new technologies.

We particularly want to note the remarkable achievement of Dofasco's employees in implementing our response to the 2001 market conditions quickly and effectively. When the faltering market accelerated the need for decisive action, our market response plan came together in a matter of weeks. Our employees' experience working in multi-disciplined teams and flexibility in adapting to change, allowed us to quickly re-assign people and work to meet the challenge of reducing costs. The plan succeeded and by year end had offset significant lost revenues through sustainable cost reductions of more than $100 million in areas such as purchasing, administrative and sales expenses, outside contracting and overtime.

The speed with which we embraced the need to act and implemented the plan is a result of many years of continuous improvement in the way we do business at Dofasco. Our people have steadily developed through the years into an integrated, focused, aligned and passionate group. Like the changes that are taking place in the industry overall, what we accomplished last year was not a one time occurrence and has provided a stronger foundation for even further improvement which will serve us well in the future.



John Mayberry, President and Chief Executive Officer



Chuck Hantho, Chair of the Board

Sustainability

At Dofasco, we measure success on our performance in the three integrated and mutually dependent components of sustainability – environmental responsibility, social well-being and financial results. Continuing the practice we began last year, this 2001 Annual Report reflects Dofasco's commitment to the triple bottom line of sustainability by measuring and reporting in all three areas. We believe this approach provides shareholders and other stakeholders the complete disclosure they require to adequately assess our overall performance.

Financial results

A strong performance at Dofasco's Steel Operations segment, primarily in Hamilton, was largely offset by losses at Gallatin Steel and Quebec Cartier Mining Company (QCM). Dofasco's consolidated net income in 2001 was $26.7 million. After preferred share dividends, earnings per common share were $0.35. The comparative figures for 2000 were $188.7 million net income and earnings of $2.47 per share.

Consolidated sales in 2001 were $2,962.5 million on shipments of flat rolled and tubular products of 4,375,000 tons. In the previous year, sales were $3,201.1 million on shipments of 4,416,000 tons.

The Steel Operations segment reported 2001 pre-tax net income of $110.6 million, compared with $243.6 million in 2000. Primary steelmaking facilities in Hamilton operated at capacity, resulting in a strong shipment level of 3,709,000 tons compared with 3,795,000 a year earlier. As a result of a higher proportion of value-added products in our sales mix, the decline in revenue realized per ton of steel shipped from Hamilton – approximately 3.5% from 2000 – was much less than the decline in average steel selling prices in North America.

Although earnings from the Steel Operations segment are largely driven by results at the Hamilton operations (including DoSol Galva), the other member companies of the segment are integral to our success and performed well in 2001 despite the difficult market conditions. DNN Galvanizing in Windsor, Baycoat in Hamilton, Sorevco in Coteau-du-Lac, Quebec and Wabush Mines in Newfoundland and Quebec are joint venture operations that enable Dofasco to offer a wide range of high quality flat rolled products.

Dofasco's 50% share of the pre-tax loss at Gallatin Steel, our joint venture minimill facility in Kentucky, was $29.5 million, compared with $14.1 million pre-tax income in 2000. Gallatin shipped 1,332,000 tons in the year, about 7% higher than in 2000. A strong operating performance and lower scrap prices helped Gallatin offset some of the impact of significantly lower selling prices for their products. The average revenue realized on Gallatin's shipments was approximately $75 per ton, or 18%, below 2000.

Dofasco's 50% share of the 2001 pre-tax loss at QCM, our joint venture iron ore mining operation in Quebec, was $24.8 million compared to a profit of $5.5 million in 2000. QCM shipped only 9.9 million tonnes of iron ore products in 2001 compared to 14.3 million tonnes in 2000, reflecting a labour dispute that disrupted operations and facility shutdowns implemented to address reduced customer demand. Dofasco has announced its intention to sell its 50% share of QCM.

Customer recognition

Dofasco's continuing investments in new facilities and technologies have helped us to improve in ways that create value for our customers. The main reason we operated at capacity throughout the year at our primary steelmaking facilities was our strong market positioning, supported by our high level of quality, strong customer service, and superior delivery and cycle time performance.

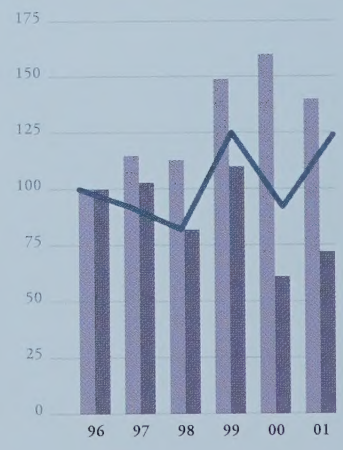
In fact, the respected Jacobson & Associates survey, covering such categories as service, delivery, quality and price ranked Dofasco second in overall customer satisfaction in 2001 among 27 major North American steel suppliers. This excellent result, following our first place ranking in 2000, is evidence of Dofasco's commitment to customer satisfaction.

We received two Certificates of Achievement from Toyota Motor Manufacturing North America Inc. in recognition of Dofasco's 100% on-time steel shipment delivery and excellent quality record.

Dofasco also received a quality performance award from appliance manufacturer Whirlpool. The award, one that fewer than 5% of Whirlpool's suppliers receive, is based on supplier quality ratings and the contribution of improvements that enhance Whirlpool operations.

Investments in Differentiation

In 2001, Dofasco made excellent progress in further executing our *Solutions in Steel™* strategy.



Cumulative total return on $100 investment

dollars

- Dofasco Inc.
- TSE 300 Index
- TSE Steel Index

Hamilton operations

A $20 million upgrade of our Galvalume™ line enables us to produce Galvalume Plus™, a new product that uses a clear organic resin coating to improve the product's qualities and enhances our position as the leading steel supplier to Canadian construction markets.

Hamilton's largest steelmaking facility underwent an extended maintenance and improvement shutdown involving 1,000 people. As a result, the stream will have greater productivity, increased reliability, minimal maintenance outages and reduced emissions.

The $138 million hot mill improvement program in Hamilton, launched in 1999, was completed ahead of schedule in December 2001. The program keeps our operation at a world-class level by increasing capacity, enhancing product quality and reducing cost.

The investment is already paying off. In October, Dofasco's hot mill set a world record production level for a semi-continuous hot strip mill of 413,101 prime tons in one month, 9.3% better than the previous record. The accepted benchmark for world class performance is 350,000 prime tons in a month, a level Dofasco's mill accomplished six times during 2001.

Dofasco de Mexico

In December, ahead of schedule, our automotive tube manufacturing and steel processing facility in Monterrey, Mexico began commercial production, bringing Dofasco's total tube production capacity to approximately 400,000 tons per year. With its workforce of about 120 people, Dofasco de Mexico will serve the rapidly growing Mexican automotive market.

Powerlasers

Since Dofasco acquired Powerlasers in May 2000, our subsidiary that manufactures laser-welded automotive blanks and related components with facilities in Concord and Kitchener, Ontario and Pioneer, Ohio has made some significant achievements. It has recently been awarded new programs for the 2003 and 2004 model years that have the potential to increase production by a further 50%. In addition, Powerlasers' manufacturing facilities have achieved ISO 14001 registration and successfully completed QS 9001 surveillance audits.

Powerlasers supports Dofasco's objective of using innovative technologies to add value for our customers.

DoSol Galva

We continued to pursue opportunities to develop broader commercial applications for Extragal™, the unique corrosion-resistant hot dipped galvanized steel produced exclusively in North America at DoSol Galva, Dofasco's joint venture in Hamilton.

In 2001, Extragal™ was trialed for potential use in the first commercial application for body side panels in a North American passenger car. Extragal™ is currently used in fenders, doors and liftgates for vans.

In 2000, we announced that Dofasco was considering acquiring a minority interest in Vega do Sul, an Extragal™ facility to be built in Brazil. A final decision regarding Dofasco's participation in this venture will be made before the end of 2002.

Zyplex™

Over the past few years, Dofasco's search for ways to add value for our customers led to the development of Zyplex™, a new laminated steel product that is 35 to 50% lighter than conventional steel products. Zyplex™ offers affordable weight reduction compared to aluminum and other composites, as well as greater strength, better dent resistance and less sound transmission from external sources.



Dividend yield

% as at December 31

- Dofasco Inc.
- TSE 300 Index
- TSE Steel Index



Earnings per share

dollars per common share

- Normal operations
- Other items

In 2001, a pilot manufacturing facility was successfully installed in Hamilton and the first commercial orders for Zyplex™ – for transport trailer applications – were received. The experience gained in working with potential end users to tailor and customize the product to their specific needs will be instrumental in making Zyplex™ a fully commercial product.

Sustainability

In the end, any company exists to fulfill many human needs in various ways. Even in a year such as we experienced in 2001, Dofasco's commitment to the principles of sustainability did not waver. We continued to work towards the triple bottom line of environmental responsibility, commitment to community and financial performance, thereby creating value for our shareholders, our customers, our employees, our suppliers and the communities in which we operate.

In 2001, Dofasco was named one of the world's most sustainable companies by the Dow Jones Sustainability World Index (DJSI World) for the third consecutive year, and the market sector leader in the Basic Resources sector of the index for the second year in a row. From the 2,500 largest companies in the Dow Jones Global Index, DJSI World chose 312 companies from 63 industries in 26 countries for inclusion. Dofasco is the only Canadian company ranked as a sector leader and the only steel company in the world listed on the index.

Environmental performance
Dofasco's Hamilton operations were registered to the ISO 14001 Environmental Management System standard in 2001. This registration meets our automotive customers' environmental requirements and exhibits our firm commitment to environmental responsibility.

During the year, Dofasco received two Hamilton sustainable community recognition awards. The Business and Industry Award recognized Dofasco's commitment to enhancing the quality of life in Hamilton through community engagement and sponsorship in the educational, health and cultural sectors. The Air Quality Award recognized the installation of emission control systems at our coke by-product plants.

Community
Dofasco and its employees make substantial investments in Hamilton and the other communities where we work through donations of time, expertise and money. Dofasco supports the principles of Imagine, Canada's national program to promote public and corporate giving. As the Imagine guidelines for corporate donation levels are a function of pre-tax income, the absolute dollar amount of Dofasco contributions will decline in 2002 because of the lower profits in 2001. However, we will continue to meet all our outstanding commitments and evaluate requests for support.

Health and safety
Nothing is more important than the health and safety of our people. While we are pleased with the progress we made in the continued implementation of our health and safety improvement initiatives across the organization in 2001, the results did not meet our expectations. We are focused on a number of key activities to improve our performance in 2002 and remain committed to achieving an accident-free workplace.

Director and Officer Changes

In November, Robert W. Nuttall was appointed Comptroller, succeeding Brian Wilson who moved to a senior position in the Purchasing and Logistics Department. Bob was previously Director of Finance, Tubular Products and has held a number of positions in Dofasco's Finance Department since he joined the company in 1978.

Earlier this month, the board announced executive and board changes that will become effective following the Annual and Special Meeting of Shareholders on May 3, 2002.

Chuck Hantho will not be standing for re-election to the board, having reached the company's mandatory retirement age.

John Mayberry will become Chair of the Board and Chief Executive Officer.

Brian MacNeill will be named the board's independent Lead Director, to maintain Dofasco's compliance with the board's own policies and accepted corporate governance guidelines to which Dofasco is committed.

Don Pether will become Dofasco's President and Chief Operating Officer. Don was named Chief Operating Officer in 2000 and has been directly and significantly involved in establishing Dofasco's strategic direction and overseeing its implementation.

Two other directors have also reached retirement age. Robert Dowsett, a member of the board since 1975 and David McCamus,

a Dofasco director since 1993, will not be standing for re-election to the board.

A slate of 13 directors will be proposed for election to the board. In addition to the 11 returning members, Don Pether and William Etherington will also be standing for election. Bill Etherington retired from IBM in October 2001 as Senior Vice President and Group Executive, Sales and Distribution and as Chairman, President and Chief Executive Officer of IBM World Trade Corporation.

A number of factors point to a permanently changed steel industry and market. In the near future, we expect continued oversupply, soft demand, weak pricing and consolidations among steel producers as they seek greater economies of scale.

At Dofasco, we take a long-term view. We have moved to a ten-year planning perspective to understand where the industry is, where it is going and what we need to do to be successful. When the current plan is completely executed, we will have reinvented Dofasco into a globally focused, world class steelmaker.

We will have fully completed the transition that started with a product oriented company, that moved to a market focused company, and that will end with a customer focused organization. We will continue to work towards our goal of earning a sustainable return greater than our cost of capital throughout the business cycle. This will enable us to attract the capital we need to continue to make the strategic investments in Dofasco people, products and facilities. This will ensure we remain not only competitive, but an industry leader to the benefit of our shareholders, customers, employees, suppliers and communities.

The accomplishments of 2001, in the face of the worst year many of us have ever seen, reveal our unlimited potential. From top to bottom, the entire organization was mobilized and engaged. Our strategy and our people were put to the test and their outstanding performance validated our faith in them.

We can be confident in the future.

Chuck Hantho

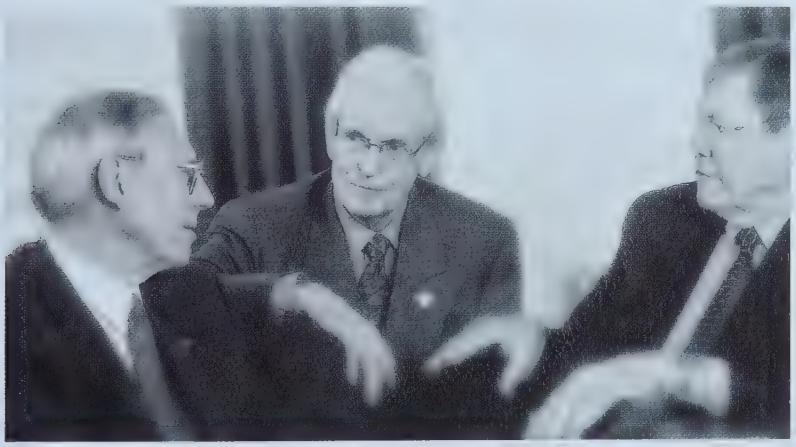
Chuck Hantho
Chair of the Board

John Mayberry

John Mayberry
President and
Chief Executive Officer

March 28, 2002

A SPECIAL "THANKS"



(left to right) **Chuck Hantho, Robert Dowsett** and **David McCamus.**

Three valued members of Dofasco's Board will be retiring at the Annual and Special Meeting of Shareholders in 2002. Robert Dowsett has been a member of the Board since 1975. Chuck Hantho joined the Board in 1989 and has been its Chair since 1995. David McCamus was first elected a director in 1993.

Each of these directors has served the company and its shareholders during a period of unprecedented change in our industry, and particularly in Dofasco. Our position as one of North America's leading and most profitable steel companies is due in no small measure to their insight, their foresight, their generous and astute counsel, and their unwavering support for the company's management and employees. On behalf of all us at Dofasco, I thank Rob, Chuck and David for their contributions to the company's success and wish them well in the future.

John Mayberry

Building on our strength...

For Dofasco, 2001 was a story of the exceptional strength and accomplishments of a group of people tested by circumstance... a story of values, of unity of purpose, and above all, a story of achievement.

In a market characterized by excess supply, soft demand and low prices, Dofasco's people achieved a remarkable result. Dofasco was the only profitable integrated steel producer in North America, and one of just a handful of steel manufacturers of any kind to record positive financial results for 2001. This could only have been achieved by people who understand and care passionately about their business.

In late 2000 and early 2001, North American steel markets worsened as the dumping of steel imports into our markets continued. Spot steel prices fell drastically and demand for steel weakened in many of our major markets.

Our assessment was that the market correction would last until inventories were again balanced and the international trade situation was resolved. We focused on offsetting the revenue we expected to lose as a result of falling demand and pricing, and to make the decisive changes required to ensure the company would be in a strong position when market conditions did improve.



Five-year-old **Chloë Hamilton** is one of Dofasco's newest shareholders.

In 2001, Dofasco received a quality performance award from Whirlpool Corporation. **Dave Kelly** of Dofasco's Cold Rolled Product Finishing department knows appliances – inside and out.



Our market response plan was developed and implemented within weeks, and as the year evolved, it became even more critical than we had envisioned early in 2001. The economy did not exhibit stability and was already in decline when the tragic events of September 11 inhibited capital spending and eroded consumer confidence, depressing steel markets even further.

In the kind of market we experienced in 2001, our traditionally strong ability to generate cash was an even more important competitive advantage. Many other steel companies, with heavy debt burdens and other liabilities, continued to experience serious constraints on their ability to generate, borrow or raise cash. Dofasco's financial strength, one of the cornerstones of our overall strategy, meant that we did not have to take action that detracted from our plans for growth.

There were two key aspects to our market response plan. The first was to protect our gross margin by reducing costs and by optimizing revenues wherever possible. The second was to ensure that we generated sufficient cash to finance our operations and capital requirements.

The market response plan offset more than $100 million in lost revenue through:

- reductions in the cost of purchases,
- reductions in administrative and sales expenses;
- reductions in outside processing, contractors, rentals and overtime; and
- increased tinplate shipments and revenue in declining North American consumer packaging markets, enabled by upgrades to our Hamilton tin mill operations.

In addition, reductions and deferrals of capital expenditures saved more than $30 million in cash.

How were we able to accomplish this dramatic turnaround, when other major steel companies could not?

The answer has been the key to our success since the company's founding 90 years ago – people.

The competitive advantage that Dofasco people represent is most evident in challenging times. We have a history of reacting to the changing needs and demands both of the market and of our individual customers. Our evolution into a unified, forward-looking workforce with a common sense of purpose gave us a clear head start on the rest of the industry.



The Hamilton Engineering Institute and the Hamilton chapter of the Professional Engineers of Ontario recognized the efforts of Dofasco's **#2 Tube Mill project team** by awarding Dofasco's #2 Tube Mill with their 2001 "Project of the Year" award.

We didn't need to explain to each other why action was important and what kind of action would be effective. Everyone at Dofasco was, and is, aware of how his or her job aligns with our overall targets and with the key drivers of the company's performance. And during 2001, everyone at Dofasco was aligned with the needs that the market response plan addressed.

Our employees found cost savings above and beyond the response plan. Dofasco people performed work normally done by contractors. In fact, the number of outside contractors working on site dropped from an average of 500 during 2000, to 50 during 2001. We used our available capacity to reduce outside processing. We identified and achieved cost reductions in information systems and technology.

We used innovative thinking to find savings and did what many people do at home to save money. We kept the work environment cleaner, reduced building cleaning costs and disposed of our own trash, saving more than $1 million for the year. We made overtime meals in our in-house cafeteria and reduced the need for in-plant catering, saving about $650,000. We made better use of day-to-day plant supplies and saved $500,000.

We were there for our customers in tough times – times when many of our competitors failed to meet their commitments. This reliability kept our primary operations working at capacity, in stark contrast to the greatly reduced levels at most steel companies.

We were again ranked among the very best steel companies in North America in terms of satisfying our customers. We received awards from our customers for superior products and service.

Dofasco people, through their ability to adapt and a well-established passion for teamwork not only kept our operations running safely and efficiently, they continued to create new opportunities for growth.

We completed a number of improvement projects in Hamilton during 2001, adding advanced Galvalume Plus™ to our construction market product portfolio, upgrading our largest steelmaking stream in Hamilton to increase productivity and reliability and reduce visible emissions, and adding capacity and improved quality to our hot mill operations.

Initiatives outside of Hamilton also contributed to Dofasco's success and position the company for future growth. We started up our new automotive tube manufacturing and steel processing facility in Monterrey, Mexico. Dofasco de Mexico is capable of producing tube for high pressure hydroformed applications and will serve the rapidly growing automotive industry in Mexico.



Oleg Manorik and **Ky Van Nguyen** help meet the exacting requirements of Powerlasers' customers.



An integral part of Dofasco's competitiveness is the contribution from a supplier community that shares in Dofasco's success. Shown here with **Gina Rodenkirchen** of Dofasco's Purchasing Department is **Lorne Brenton** of Partners Machine Shop, a high quality supplier of specialty machined parts.

In addition to designing and marketing Zyplex™ and other new steel technologies, **Frank Castriciano** (left) and **Mike Slywchuk** of Dofasco's Innovation Group also focus their creative energies outside the workplace.





Julie Dixon of Dofasco's Process Automation department is spending two years as "Engineer in Residence" at McMaster University in Hamilton, helping develop the next generation of engineering expertise.

As well, Powerlasers has been awarded new orders for the 2003 and 2004 model years, enhancing its reputation as a leading supplier to the automotive industry.

This focus on countering the effects of a down market did not affect our commitment in areas such as safety and health, quality and yield, environmental performance and social well-being. We maintained our unwavering focus on improvement in all these areas.

The reaction of the industry to market conditions in 2001 was varied, but dramatic. Many of our competitors filed for bankruptcy protection. The market is forcing plant closures that are beginning to eliminate some of the estimated 200 to 300 million tonnes of global excess steel manufacturing capacity. Other companies are joining forces to seek more efficiency. As an example, the merger of Usinor of France with Luxembourg's Arbed and Spain's Aceralia has created the largest steel company in the world with an estimated annual output of 46 million tonnes. This consolidation, in turn, will lead inevitably to more industry rationalization.

At Dofasco, we have worked for much of the last decade to develop the capability to produce consistently strong results through increasingly volatile pricing cycles. The gap is widening between companies well positioned to compete and those not. We expect Dofasco to continue to excel in this environment because of our commitment to our customers, our suppliers, our communities, our investors and the people we work beside every day.

The results of our market response plan exceeded even our own expectations. The benefits will outlive the current downturn. In one of the industry's most challenging years ever, there was no magic bullet, no obvious quick fix for Dofasco. It took thousands of cumulative acts, from thousands of engaged employees, throughout the company.

We emerged from 2001 stronger and more capable than ever. We have moved our planning horizon from the next year to the next decade. We have extended our search for industry best practices to global benchmarks. We will keep finding new ways to make significant and sustainable reductions to our cost structure. And, in the face of the challenges that will continue to confront all steel producers, we will remain attractive to our customers, and to our shareholders, by continuously creating value for them.

For Dofasco, 2001 was a year of many lessons. But one stands above the rest – our achievements in the past and our future success depend on an enduring truth – Our strength is people.



Employees at Dofasco's Hot Strip Mill in Hamilton repeatedly surpassed industry-recognized "best-in-class" quality performance benchmarks in 2001. (left to right) **Grant Stephen, John Verboom, Brian Root, Bryan Schneck** and **Darren Martin.**

POLICY ON ENVIRONMENT

The conservation and protection of our natural environment is a fundamental consideration in our decision making. Environmental quality and the well-being of our community are primary goals for all Dofasco people.

Sustainable Development. We will take an integrated approach to improve our environmental performance, improve the quality of life of our employees and the community, and achieve our financial goals.

Managing Resources. We will optimize the use of resources by reducing, reusing, recovering, and recycling energy, raw materials, water, and by-products.

Pollution Prevention. We will minimize our environmental impact through innovative design and practices to improve our processes and our products.

Product Stewardship. We will work with our customers and suppliers to maximize the inherent advantages of steel's strength, recyclability and cost-effectiveness across the steel product life cycle.

Continual Improvement. We will use our environmental management system, which includes setting objectives, assigning responsibilities, communication, training, auditing, and assessing risks, to achieve this.

Exceeding Expectations. We will meet standards set by legislation and go beyond compliance where appropriate through voluntary commitments to stakeholders.

Dofasco is committed to continuous improvement of our environmental performance and energy use. As a company dedicated to sustainability, Dofasco focuses on minimizing the use of raw materials, reducing environmental impacts, and maximizing energy efficiency.

Dofasco's Hamilton operations achieved ISO 14001 registration in 2001. This achievement reflects the evolution of Dofasco's Environmental Management System over more than 30 years. The registration process was undertaken by hundreds of employees from all business units working in cross-functional teams. Each business unit dedicated resources towards the effort and the registration was a key success measure in all business plans.

When announcing Dofasco's recommendation for ISO registration, auditors from the Quality Management Institute commented that the skill and knowledge of Dofasco employees attested to the company's slogan, "Our strength is people".

The ISO 14001 standard recognizes Dofasco as possessing a consistent and thorough environmental management system across the company. A number of Dofasco's major customers have indicated they will require ISO 14001 registration from their suppliers. Dofasco achieved registration more than a year in advance of customer deadlines.

DoSol Galva, a joint venture between Dofasco (80%) and Usinor (20%), received ISO 14001 registration in 2000, and successfully completed its one-year surveillance audit in December, 2001. Powerlasers is also registered to ISO 14001 at their manufacturing locations. Dofasco de Mexico will undertake the ISO 14001 registration process in 2002, its first full year of operation.

Dofasco was the first company in Canada to sign a voluntary Environmental Management Agreement with the federal and provincial governments in 1997. The company meets with government on an annual basis to review progress. The company has already met many of the stated commitments and is working towards meeting the remainder. These commitments relate to energy use, air and water quality, and secondary materials.



Jamie Skimming of Dofasco's Environment and Energy department trains for his first Around The Bay 30K Road Race. Jamie was instrumental in Dofasco's achievement of ISO 14001 registration in 2001.

The manufacture of steel requires significant amounts of energy. Dofasco continuously explores opportunities to improve energy efficiency.

Dofasco, as part of a Canadian steel industry commitment, has committed to reduce Specific Energy Consumption (SEC) by 10% between 2000 and 2010. Dofasco had reduced SEC between 1990 and 2000 by 19.5%, under a prior voluntary commitment.

In 2001, SEC rose from 18.4 to 18.8 GigaJoules/tonne shipped. Energy consumption in 2002 was essentially the same as that of 2001.While continuing to run the more energy-intensive primary end of the plant at normal high levels, shipments of steel declined slightly because of market conditions.

The company initiated an energy assessment program in 2001 that will involve a thorough examination of each business unit's energy use, and result in specific recommendations for improvement. The program will run through 2005.

A plant-wide electricity cost optimization program was also conducted in 2001. The project examined methods to reduce the cost of energy use throughout the plant without impacting the ability to operate. Options for cost improvement include operating select equipment or operations in off-peak price periods.

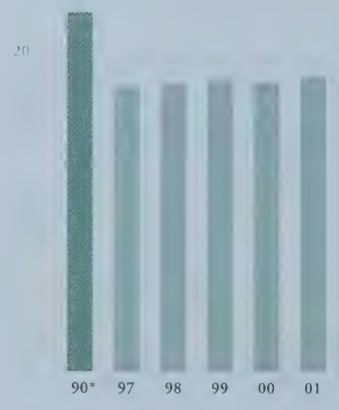
Greenhouse gases, such as carbon dioxide, are widely believed to contribute to climate change. Dofasco's carbon dioxide emissions per kilogram of steel shipped increased slightly in 2001. However, absolute levels of carbon dioxide emissions remained at 2000 levels. Emissions from the increased use of coke were offset by fewer emissions resulting from the reduced use of natural gas.

Canada became a signatory to the Kyoto Protocol in 1998. As the federal government develops plans to achieve its Kyoto goals, Dofasco will continue to pursue voluntary efforts as the company's principle response to climate change. To date, Dofasco's emissions of greenhouse gases have been reduced by 24% since 1990, the baseline year of the Kyoto Protocol.

Dofasco continues to explore alternative options, such as co-generation, to improve energy efficiency, enhance competitiveness, and minimize environmental impact.

A Dofasco representative was appointed Chair of the Canadian Industry Program for Energy Conservation (CIPEC). The company also continues to support the Centre for Advanced Gas Combustion Technology (CAGCT) for research into high-efficiency, low nitrogen oxide (NOx) combustion. We also support the BIOCAP Canada Foundation for research into strategies that reduce greenhouse gas emissions by increasing the amount of carbon stored in soil, crops and trees. Both CAGCT and BIOCAP are located at Queen's University in Kingston, Ontario.

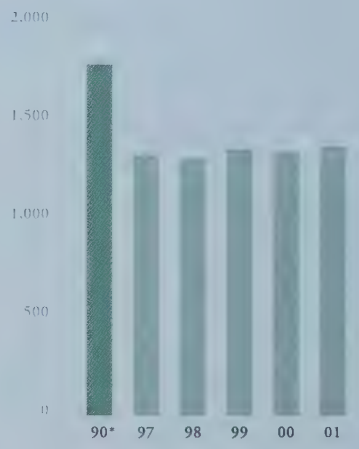
Both Powerlasers and Dofasco de Mexico use only nominal amounts of energy to run their operations and therefore have not to date undertaken significant energy efficiency initiatives.



Energy rate (SEC)

gigajoules/tonne shipped

* base year



Carbon dioxide emissions to air

kg/tonne shipped

* base year



When she's not ballroom dancing with her husband **Sandy, Regina Chong** of Dofasco's Utilities Technology department works on projects that contribute to improving the company's energy use and environmental performance.



Sulphur dioxide emissions to air

kg/tonne shipped

* base year

Inventory of particulate emissions

Nitrogen oxides emissions to air

kg/tonne shipped

* base year

Michael Tarjan worked on the installation of new fume collection equipment in Dofasco's steelmaking operations. In 2001, Dofasco also received an Air Quality Award from Vision 2020's Sustainable Community Recognition Awards program, recognizing the company's benzene reduction program.

Dofasco undertook a number of activities in 2001 to reduce emissions to air.

New fume collection equipment was installed at the company's steelmaking operations to improve the collection of particulate emissions and reduce visible emissions to air. The $3 million project was completed in November.

Dofasco invested more than $600,000 in dust abatement efforts in 2001 in order to reduce the amount of wind-blown dust from operations and transportation. Activities undertaken include paving, road-sweeping and green-belting and have accounted for a 42% reduction of surface particulate emissions from 2000 levels. These activities also provide an opportunity to contribute to improved aesthetics of Dofasco operations.

The visible emissions reduction program at Dofasco's cokemaking operations showed continuing progress in 2001. The program includes a variety of activities to reduce instances of visible emissions. It has also contributed to the company's ability to meet current Polycyclic Aromatic Hydrocarbons (PAHs) emission targets and to progress towards meeting 2005 targets set out by Environment Canada's Code of Practice for PAHs.

Dofasco was engaged with Environment Canada in the development of Canada-Wide Standards for emissions of dioxins and furans. This initiative was launched by the Canadian Council of Ministers of the Environment. It is expected the standard will be finalized in 2002.

The company also continued to work with Ontario's Ministry of the Environment as a participant in the Anti-Smog Action Plan. In 2001, the ministry proposed emission limits for industry for substances including nitrogen oxides, volatile organic compounds, sulphur dioxide and fine particulate. Dofasco has achieved improvements already and will continue to work with government and stakeholders on plans to reduce smog-related pollutants.

Discussions among government and industry stakeholders continued in 2001 on the topic of emissions trading. Dofasco is in favour of a market-based system that recognizes emissions reduction through voluntary efforts. Dofasco has demonstrated success in voluntary reduction programs such as its Environmental Management Agreement, CIPEC, and the Canadian steel industry's Statement of Commitment and Action. Dofasco continues to engage in discussions on this issue.

Dofasco is addressing residents' concerns about odours from the company's Hamilton operations. In 2001, Dofasco conducted extensive testing to assess effective treatment options. The company also hosted a public meeting to inform our neighbours on progress to date. The company is committed to maintaining open and friendly communications with our neighbours.

Powerlasers and Dofasco de Mexico do not emit pollutants to air.



Particulate emissions to air from point sources

kg/tonne shipped

* base year



PAHs emissions to air

kg/tonne shipped

* base year



Benzene emissions to air

kg/tonne shipped

* base year

Dofasco's primary water treatment recirculation system has reduced particulate loadings to Hamilton Harbour by more than 99% since 1990. The "closed loop" system recirculates virtually all process water from primary operations.

In 2001, Dofasco initiated a comprehensive groundwater study to ensure there is no contaminated groundwater entering Hamilton Harbour from Dofasco property. The study will be completed in 2002. This is the third groundwater study in the last ten years. The first two studies, which occurred between 1994 and 1997, indicated there were no contaminants entering the harbour.

Dofasco conducted more than 6,000 analytical water tests in 2001. The company reported two toxicity test failures in 2001, resulting from a valve malfunction that allowed process water to enter non-contact cooling water at one of the company's blast furnaces. The valve was promptly replaced and procedures put into place that will help prevent a similar occurrence in the future.

In 2001, Dofasco was charged under Ontario's Environmental Protection Act and the Ontario Water Resources Act. The charges relate to a release to harbour that occurred in January 2000. Dofasco views this as an issue of high importance. The matter will go to court in 2002.

Dofasco remains engaged with local stakeholder groups dedicated to the remediation of Hamilton Harbour. These groups include the Hamilton Harbour Remedial Action Plan, the Bay Area Restoration Council, and the Bay Area Implementation Team.

Dofasco is committed to improving water quality and to outperforming requirements of the Municipal-Industrial Strategy for Abatement (MISA).

Dofasco de Mexico has a self-contained water system that collects and treats all process water.

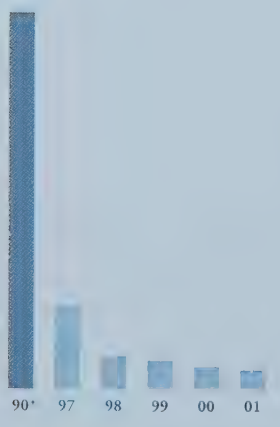
Powerlasers uses distilled water in a closed loop process for its laser chillers at its Pioneer and Concord facilities.



Total process effluent to Hamilton Harbour

g/tonne shipped

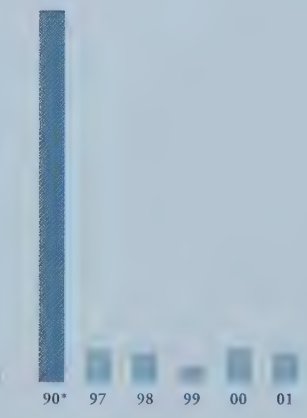
* base year



Ammonia to Hamilton Harbour

g/tonne shipped

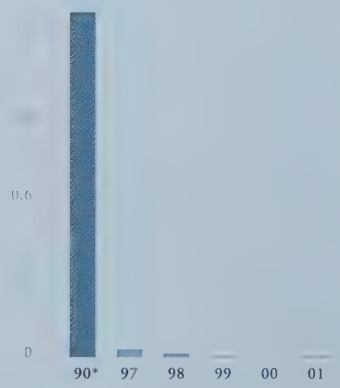
* base year



Dissolved organic carbon to Hamilton Harbour

g/tonne shipped

* base year



Phenol to Hamilton Harbour

g/tonne shipped

* base year

Parameter	MISA Limit (kg/day)	Dofasco Performance (kg/day)	% of MISA Limit
Suspended Solids	646	88.44	14%
Cyanide	19.8	0.351	2%
Ammonia	152	23.19	15%
Lead	6.08	0.269	4%
Zinc	11.7	1.97	17%
Phenolics	0.364	0.049	13%



Chris Jewell ensures that water discharged to the environment from Dofasco's primary steelmaking facilities meets all Ontario Ministry of Environment regulations. Dofasco is also engaged with several community groups dedicated to the ongoing preservation and remediation of Hamilton Harbour.



Dofasco steel slag is now being used in road aggregate in Hamilton and Burlington, thanks in large part to **Bruce Farrand** of Dofasco's Research and Development department. Bruce developed a new process that reduced costs for Dofasco while coming up with a superior product for road paving.

Turning a by-product into a feedstock results in less waste to landfill, reduced landfill costs and reduced expense in purchasing raw materials for production.

Dofasco continuously explores areas of opportunity for its secondary materials to meet these environmental and financial objectives.

In 2001, the company was Industry Champion for the Golden Horseshoe By-Product Synergy Project. The project began in 2000 with the goal of bringing together diverse companies to identify opportunities to use the by-products of one company as a feedstock for another.

As a result, Dofasco initiated two trial projects this year. By working with other companies, Dofasco has identified uses for waste oxides and carbon black materials. If successful, these trials could result in the diversion of up to 15,000 tonnes of material from landfill.

Dofasco began operation of a pneumatic silo at its Electric Arc Furnace (EAF) in early 2001. This allows the company to more efficiently store and transport EAF dust to a metals recovery facility. EAF dust is rich in zinc that can be used in the manufacture of consumer products. Dofasco transported approximately 14,000 tonnes for metals recovery in 2001, almost double the amount from 2000.

In 2001, 100% of Dofasco's steel and blast furnace slags were recycled. This 690,000 tonnes of secondary material was diverted for many outside uses, such as road aggregate, cement, cinder block and asphalt. Dofasco has also led the industry in finding innovative internal uses for steel slag, saving more than $2 million per year. For instance, the company patented a slag coating process in 2001 that allows the company to coat its steelmaking vessel with slag, instead of lime.

Dofasco continued its PCB phase-out program in 2001, replacing 25 PCB transformers with non-PCB units, sending more than 36,000 kg of PCB liquids and 111,000 kg of transformer shells for secure destruction. Environment Canada has set a proposed deadline of 2009 for the removal and safe disposal of all electrical equipment containing PCBs and stored PCBs. Dofasco's phase-out program will achieve all regulatory deadlines.

Powerlasers and Dofasco de Mexico produce few secondary materials. All scrap metal at both companies is recycled to steel manufacturing. Process oil from Dofasco de Mexico is captured and used as a feedstock in the manufacture of cement.



Blue box materials collected for recycling

tonnes



Solid waste disposal

kg/tonne shipped

* base year

Dofasco is required to provide a full report of its releases to Environment Canada. This chart provides performance data on Dofasco's priority substances. A complete inventory of Dofasco substances can be found on the NPRI website at: www.ec.gc.ca/pdb/npri/

Substance Name	Direct Release to the Environment Tonnes/Year 2000	2001	Primary Release Air	Water	Action Plan to Reduce Emissions
Ammonia	20	15			Continue Coke Battery leak reduction program and engineer new ammonia stills at By-Product Plant
Benzene	122	85			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Chromium and its compounds	0.17	0.19			Optimize KOBM Secondary Emissions Control System
Copper and its compounds	0.16	0.18			Optimize KOBM Secondary Emissions Control System
Dioxins & Furans (TEQ*)	0.00000054	0.00000058			Investigate control options through the Canada-Wide Standards setting process
Ethylbenzene	0.67	0.49			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Ethylene	24	18			Continue Coke Battery leak reduction program
Hexachlorobenzene	0.00017	0.00018			Investigate control options through the Canada-Wide Standards setting process
Hydrochloric Acid	45	46			Process and maintenance improvements at Pickle Lines and Acid Regeneration Plants
Hydrogen Sulfide	119	114			Investigate expanding the Benzene Emission Control system which will capture hydrogen sulfide
Lead and its compounds	0.32	0.36			Optimize KOBM Secondary Emissions Control System
Manganese and its compounds	2.0	2.0			Optimize KOBM Secondary Emissions Control System
Mercury	0.088	0.095			Investigate pollution prevention options through the Canada-Wide Standards setting process
Nickel and its compounds	0.05	0.05			Optimize KOBM Secondary Emissions Control System
Polycyclic Aromatic Hydrocarbons	43	27			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Styrene	0.6	0.5			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Toluene	15	11			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Xylene	2.9	2.2			Optimize emission controls at Coke Plant By-Product areas and continue Coke Battery leak reduction program
Zinc and its compounds	7.1	7.5			Optimize KOBM Secondary Emissions Control System

Note: Air release inventories of metals, PAHs, ammonia and hydrochloric acid for 2000 were updated to reflect new information and improved estimation techniques applied in 2001. The data in this table will be submitted to Environment Canada as part of our National Pollutant Release Inventory reporting requirements.

* TEQ – international toxic equivalences

Ammonia (NH_3)	A colourless gas with a sharp irritating odour. Easily soluble in water. Ammonia is a by-product of cokemaking. Ammonia is removed from coke oven gas and sold.
BOF Oxide	An iron rich by-product recovered from the Basic Oxygen Furnace gas cleaning system.
Benzene	A flammable, colourless to light yellow volatile aromatic hydrocarbon. Benzene is a by-product of cokemaking. Benzene is recovered from coke oven gas and sold.
Carbon Dioxide	An odourless, colourless gas. A product of combustion of a fuel containing carbon.
Climate Change	A change in the average weather. This might encompass changes in temperature, precipitation and wind patterns. On a global scale, it refers to changes in the climate of the earth as a whole.
Coke Oven Gas	A gaseous fuel that is generated when volatile materials are driven out of coal during the coking process. Coke oven gas is distributed throughout the plant and used as a fuel to offset purchases of natural gas and oil.
Dioxins and Furans	Dioxins and furans are two closely related families of chlorinated chemicals formed as a by-product of the combustion process. Dioxins and furans are substances that require management under the Canadian Council of the Ministers of the Environment Policy for the Management of Toxic Substances.
EAF Dust	An iron and zinc rich by-product recovered from the Electric Arc Furnace gas cleaning system.
Gigajoule	A measure of energy. A gigajoule equals 1,000,000,000 joules. A 100-watt light bulb turned on for one second consumes 100 joules. Another measure of energy is British Thermal Units, or BTUs. One BTU equals 1054.8 joules.
Greenbelting	Planting of trees, shrubs and grass to reduce windblown dust from open areas.
Greenhouse Gas	Any one of several heat trapping gases (e.g. water vapour, carbon dioxide, methane) that absorb heat emitted by the earth, thereby retarding the loss of heat to space. Excess greenhouse gases may cause climate change.
Nitrogen Oxides (NOx)	A product of combustion which contributes to the formation of smog and acid rain.
Particulates	Finely divided solid or liquid particles in the air or in an emission. Particulates include dust, smoke and fumes.
pH	pH is a value which represents the acidity or alkalinity of a solution. Pure water has a pH of 7.
Phenol	A class of aromatic compounds in which one or more hydroxyl groups are attached directly to the benzene ring. Phenol is a by-product of cokemaking.
Polycyclic Aromatic Hydrocarbons (PAHs)	PAHs is a term used to collectively describe more than 100 different compounds. All of these compounds are organic substances made up of carbon and hydrogen. PAHs are released from cokemaking operations. Most are removed from the coke oven gas stream and sold in by-products such as coal tar.
Primary Manufacturing Facilities	Includes Cokemaking, Ironmaking, Steelmaking and Hot Rolling processes. At the Primary manufacturing facilities, raw materials are made into steel and then rolled into coils for further processing.
Secondary Material	A substance or material produced or recovered during the manufacturing of coke, iron and steel. Some common by-products include ammonia, BOF oxides and benzene.
Slags	Fused agglomerate that separates in metal smelting and floats on the surface of molten metal. Slags are sold and used in a number of different applications.
Specific Energy Consumption	The net consumption of energy in a process or group of processes per unit of product output.
Sulphur Dioxide (SO_2)	A colourless, pungent gas formed by the combustion of fossil fuels – has been identified as one cause of acid rain.
Sustainability	A concept that has emerged in recent years, based on the premise that development must meet the needs of the present generation without compromising the ability of future generations to meet their own needs.
Total Process Effluent	The total discharge of ammonia, phosphorus, suspended solids, oil and grease, dissolved organic carbon, phenolics and cyanide.
Total Suspended Solids (TSS)	Solids that either float on the surface or remain suspended in liquids.
Volatile Organic Compounds (VOCs)	Any hydrocarbon, except methane and ethane, with a vapour pressure equal to or greater than 0.1 mm Hg. For example, benzene is a VOC.

Dofasco's commitment to social well-being is rooted in the company's dedication to its people and in its 90-year inter-relationship with Hamilton, its primary host community.

A healthy and sustainable community has become an increasingly important factor in Dofasco's competitiveness in a globalized economy. It contributes to our ability to attract and retain a superior workforce, cultivate strong supplier relationships and maintain access to essential services.

More broadly, Dofasco's perspective is that companies at a basic level exist to help fulfill human aspirations. This is most evident in the drive to provide return to shareholders and value to customers, but is also seen in the pursuit of personal opportunity, financial security, a sense of purpose and community, the pursuit of excellence, knowledge and personal achievement. Companies do this in many ways and on that basis interact with their host communities and other stakeholders on many levels.

2001 marked the construction of our tube mill and steel processing facility in Mexico. Dofasco de Mexico, a wholly-owned subsidiary, represents not only a significant business opportunity, but also an obligation to maintain certain company values, such as respect and concern for people.

2001 also marked the first complete year of owning Powerlasers, another wholly-owned subsidiary. Powerlasers' operations in Kitchener and Concord, Ontario, and Pioneer, Ohio were well-established at acquisition, with a distinct employee culture and community ties.

Dofasco's subsidiaries abide by Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance, have crisis communications plans, human resources policies, and government relations policies and practices that are consistent with Dofasco's values and commitment to sustainability. They adhere to Dofasco's General Code of Business Conduct in respect to dealings with suppliers, customers, colleagues and other stakeholders.

Powerlasers and Dofasco de Mexico are included anecdotally in the Social Well-being section of this Annual Report. Data in charts and graphs relate to Dofasco's Hamilton operations only.

A summary of key health and safety performance indicators for Dofasco joint ventures is on Page 39.



Dofasco firefighters (left to right) **Al Romaker, Jay Carey** and **Dave Hill.**

Relief Efforts

The manner in which Dofasco and Dofasco employees responded to the tragic events of September 11, 2001 exemplified an ongoing commitment to caring shared at all levels of the company.

Dofasco was among the first steel companies in North America to make a financial contribution towards the relief effort. The company and its employees contributed $35,000 to the Red Cross – USA Appeal Fund. Dofasco's Fire Department raised more than $6,000 for the New York City Fire Department Relief Fund.

Dofasco planted 20-foot spruce trees at its Main Office and its Recreation Park in a lasting tribute to the victims. Plaques at the base of the trees read, "In memory of the victims of the September 11, 2001 tragedy in the USA – with resolve for a safer, healthier earth for today and future generations."

The prosperity of a company, its employees and the community in which it operates are closely linked. The ways in which Dofasco contributed to the prosperity of its stakeholders, in addition to its shareholders, include:

Economic Development
In addition to being the largest contributor of tax revenues to the City of Hamilton, Dofasco is actively engaged in local economic development activities. As a result of economic restructuring in the late 1980s and early 1990s, Hamilton's traditional manufacturing base declined rapidly. Dofasco maintains its involvement in the City's economic revitalization.

Supplier Relationships
In 2001, the company's suppliers worked closely with the company in support of its market response plan. Strong and sustainable relationships with its supplier base are essential to Dofasco's future success.

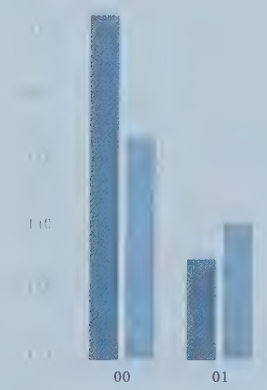
Capital Investments
2001 marked the completion of several key projects which accounted for approximately $200 million in capital expenditures. These projects included completing construction of Dofasco de Mexico's tube mill, and the completion of Hamilton's Hot Mill Improvement and Tin Mill Upgrade programs. Dofasco has invested almost $1 billion in capital expenditures in the last five years.

Compensation
Dofasco's compensation philosophy is to provide superior pay for superior performance. A portion of every Dofasco Hamilton employee's compensation is variable, tied to meeting specific annual targets, against such measures as return on capital employed, gross income, customer service, and health and safety. Hamilton employees also shared $18.6 million in profit sharing in 2001.

The Dofasco employee pension plans are fully-funded.

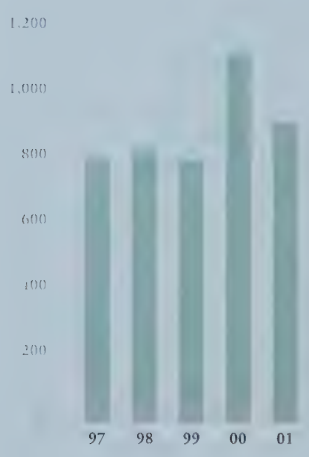
Powerlasers and Dofasco de Mexico share similar compensation philosophies with Dofasco. Dofasco de Mexico introduced variable compensation pay for all salaried employees in 2002. The company also has a number of unique benefits. For instance, emergency medical attention can be difficult to obtain locally, so Dofasco de Mexico has contracted to provide this service to its employees and their families. 2001 also marked the first annual Dofasco de Mexico Christmas Party for employees and their families, following the 65-year Hamilton tradition.

Powerlasers employees' compensation includes variable compensation pay. Employees in Canada and the United States can contribute to self-directed pension plans with Powerlasers matching a portion of these contributions. Employees are also provided a competitive health and benefits package in addition to tuition refund programs, and company-sponsored summer and Christmas events for employees and their families.

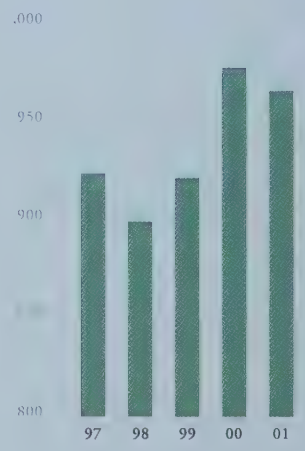


Taxes paid by Dofasco and employees
Hamilton

(Dofasco taxes: payroll, property, income, capital, commodity
Employee taxes: income tax withholdings, CPP, EI)
millions of dollars
Dofasco Hamilton
Employees



Direct local purchases
millions of dollars



Material and energy purchases
millions of dollars



Dofasco directly contributed more than $1.4 billion to the economy in 2001. **Cindy Boylan** and **Frances Van Ewijk** of Dofasco's Food Services department do some shopping at the Hamilton Farmers' Market.



Total company and employee donations

millions of dollars

2001 donations by sector

millions of dollars

Total

Local community

Diversity

% female employees

Salaried employees

Hourly employees

Dofasco was honoured with a National Post Business In The Arts Award in 2001, recognizing the company's commitment to arts and culture. **Christine Smurlick** (standing) and **Max Reimer** (right) of Theatre Aquarius in Hamilton, nominated Dofasco for the award. They are joined by Dofasco's **Brian McKnight** and his wife, **Pat**, who are long-time subscribers to Theatre Aquarius.

Strong leadership. Defined and shared goals. Clear action plans and accountabilities. These are the building blocks of a successful, prosperous, sustainable community. The ability to bring these elements together is what Dofasco refers to as community capacity. Engagement in leadership development, community "Smart Growth", economic development, voluntarism and corporate giving are areas of high priority for the company.

Civic Issues

In 2001, Dofasco helped organize the first municipally-organized Smart Growth Summit, held in Burlington, Ontario. The Smart Growth movement champions a partnership of varied stakeholders in forging better communities. Dofasco believes fiscally sustainable community growth can be achieved through working in partnership with community members on important issues such as infrastructure, transportation, environment and essential services.

In Hamilton, Dofasco is participating in a Task Force on Vision 2020, which includes the development of a 20-Year Plan for Hamilton. The plan includes a focus on economic development and an examination of ways to attract new industry and new investment to the city.

Dofasco is a charter member of the Bay Area Leadership Council, whose mission is to cultivate leadership ability across all sectors in the community. This is a long-term investment in community capacity building.

The company is also actively engaged in discussions around a potential private-public partnership for an economic development strategy for the Golden Horseshoe and Upper New York State. Hamilton is unique in Canada as being both a large urban centre and a home to heavy manufacturing. The city is advantageously located on major water, road and rail transportation routes. It is worthwhile to explore opportunities, such as the bi-national corridor strategy, to build on this geographic advantage.

Voluntary Sector

Dofasco people volunteer thousands of hours in the community, often at senior levels. In 2001, Dofasco people sat on the boards of directors of the United Way of Burlington, Hamilton-Wentworth, the Art Gallery of Hamilton, The Industry-Education Council of Hamilton, McMaster University, the Hamilton Chapter of Kids' Help Phone, St. Peter's Hospital, St. Joseph's Hospital, Theatre Aquarius, and many other organizations.

Dofasco and Dofasco employees contributed more than $3 million in charitable donations in 2001. The company remains committed to the community and to maintaining its status as a Caring Company, as determined by the Imagine program of the Canadian Centre for Philanthropy. In 2001, Dofasco received an Award of Distinction for Most Effective Corporate Program from the National Post Business in the Arts awards.

The company is concerned about the increasing reliance of community organizations in our host communities on contributions from a traditional funding base. A large, sustainable donor base is necessary to maintain essential community services, and Dofasco is working with agencies such as the United Way, with which the company has a long-standing partnership, to develop strategies to expand the base of community support.

Employees of Dofasco de Mexico participate in a regional economic development committee as well as an industry group, Grupo de Ayuda Mutua de Escobedo, to identify and address issues of local and regional importance. Employees of Powerlasers in Canada and the United States participate in a number of charitable and fundraising activities, including corporate challenges, walks and runs for organizations such as the American Heart Association.

The Art Gallery of Hamilton is in need of repair. The building is constructed of formed concrete which requires upgrading.

In assessing this need, Dofasco saw more than an opportunity to provide money for repairs. The company saw an opportunity to add value to the community.

Dofasco has committed to donate funds and to mobilize the local steel and steel fabricator community to provide the materials and resources needed to clad the gallery in steel. The total project will cost an estimated $18 million. This solution will do more than meet an urgent repair need. It will also contribute to the redevelopment and revitalization of Hamilton's downtown core, and support the continuation of a vital cultural organization in our community.

Note: Please refer to Dofasco's website (www.dofasco.ca) for the company's Guidelines for Giving.

A superior quality of life is both a key outcome of and a measure of sustainability. It begins with our employees and extends to the communities where we live and work.

Health and Safety

At Dofasco, nothing is more important than health and safety. Our goal is an accident-free workplace.

In 2001, lost time injuries and all-reported injury frequency increased slightly. These results did not meet expectations and the company continues to explore ways to improve health and safety performance. For instance, Physical Demands Analyses are being completed across the company.

There was significant improvement in the implementation of health and safety program evaluations from Dofasco's business units. Each unit is measured according to how it implements a variety of health and safety protocols, from its accident investigation and workplace inspection systems to housekeeping and communications activities. Between 1997 and 2001, every business unit improved its performance.

Dofasco's Health and Safety department, in partnership with engineering and technology staff, contributed to improvements in the design of new production lines in 2001. Early design involvement results in safer designs and fewer retrofits, reducing costs in the long-term. For instance, ergonomic consultations were used in the design of #2 Tube Mill in Hamilton and Dofasco de Mexico's tube mill.

Dofasco reviewed and enhanced its Third Party Health and Safety Management program in 2001. This program has become essential in selecting suppliers who can work on Dofasco property. The program includes defining health and safety standards, contractor qualifications, and an outline of requirements under Dofasco's Health and Safety Program.

Dofasco hosted 375 Grade 9 students at the annual Take Our Kids To Work Day. The company participated in the Learning Partnership's expert panel to recommend health and safety improvements for the program. These recommendations were incorporated into Dofasco's program.

Dofasco de Mexico and Powerlasers have implemented thorough health and safety management systems. Both companies meet or surpass all legislative requirements in the jurisdictions in which they operate.

Employee Satisfaction

Dofasco began measuring employee satisfaction in quarterly surveys in 2000. This is one indicator the company uses to understand the opinions and concerns of employees. Overall satisfaction remains high, which is also evidenced in low attrition rates.

Quality of Life: A Case Study

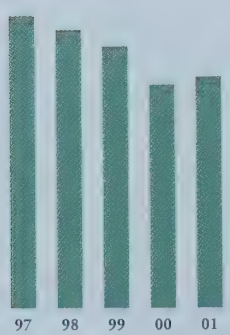
The Dofasco 2000 Trail opened in 2001. The 11.5 km walking trail runs along the Niagara escarpment and provides a view of the Hamilton-Stoney Creek skyline.

The Dofasco Shore Acres Discovery Trail also opened in 2001, in nearby Burlington, Ontario. The walking trail through wetlands is home to regional plant and wildlife. Nature and walking trails add to the quality of life for all members of the community, and improve the aesthetics of the community itself. Dofasco provided $100,000 towards each of these projects.



Lost time injuries

injuries per 100 employee-years



All-reported injury frequency

injuries per 100 employee-years



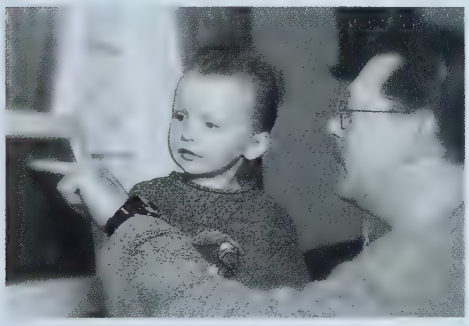
Employee satisfaction

(% attrition and job satisfaction)

- Employees satisfied
- Attrition rate (left hand scale)



Bonnie Topic is coordinator of Dofasco's Lifestyle Resource Group. In 2001, Dofasco received a Heart-Health Workplace Award from the Hamilton-Wentworth Public Health Department for leadership in creating and supporting heart-healthy environments. The company's Lifestyle Resource Group also received a certificate of recognition from Our Millennium for promoting wellness.



Kirk Stewart and his son, **K.J.**, spend some quality time at the home computer. Kirk works in Dofasco's Primary Services, and in 2001 improved his computer skills through the company's Essential Skills program. With the company's support, he is now able to pursue further learning opportunities.



Scholarships

(employee children)
thousands of dollars

Wellness

Dofasco's Lifestyle Program continued to grow in 2001. This health and wellness program is employee-driven and offers services including lunch-hour aerobics, weight loss programs, smoking cessation programs, Walk and Stretch programs, yoga, tai chi and stress management. The Lifestyle Program also hosts Dofasco's annual two-day Health and Safety Fair, which welcomed more than 3,500 employees this year.

Education and Training

Dofasco continues to invest in the future through training and education initiatives. The company invested about $15 million in employee training and education in 2001. The company has endowed two research chairs at McMaster University and one research chair at the University of British Columbia and continued its sponsorship of the Sustainable Enterprise Academy at York University.



Tuition refunds

thousands of dollars

Dofasco's Training and Development Centre in neighbouring Burlington, Ontario, received a Learning Culture Award from the Burlington Economic Development Corporation for the company's contributions to developing a learning culture for employees and the community.

Dofasco has been identified as a best practice company by The Conference Board of Canada for its Literacy In The Workplace program. In 2001, the company participated in research studies with the University of Ottawa and the Ontario Ministry of Training, Colleges and Universities to determine best practice in workplace literacy programs. Dofasco also worked with the ministry to develop workplace education program implementation models.

In 2000, Dofasco and Dofasco employees contributed $1.1 million to the purchase of a magnetic resonance imaging (MRI) unit for Hamilton Health Sciences Corporation. This became the third MRI unit in the region.

Since it began operating at Hamilton General Hospital, waiting times for routine examinations have been cut in half, from 8-12 months to 4-6 months.

There were 8,000 MRI examinations conducted at Hamilton Health Sciences facilities in 2000-2001. With the addition of the new MRI unit, an estimated 13,000 examinations will be conducted in 2001-2002.

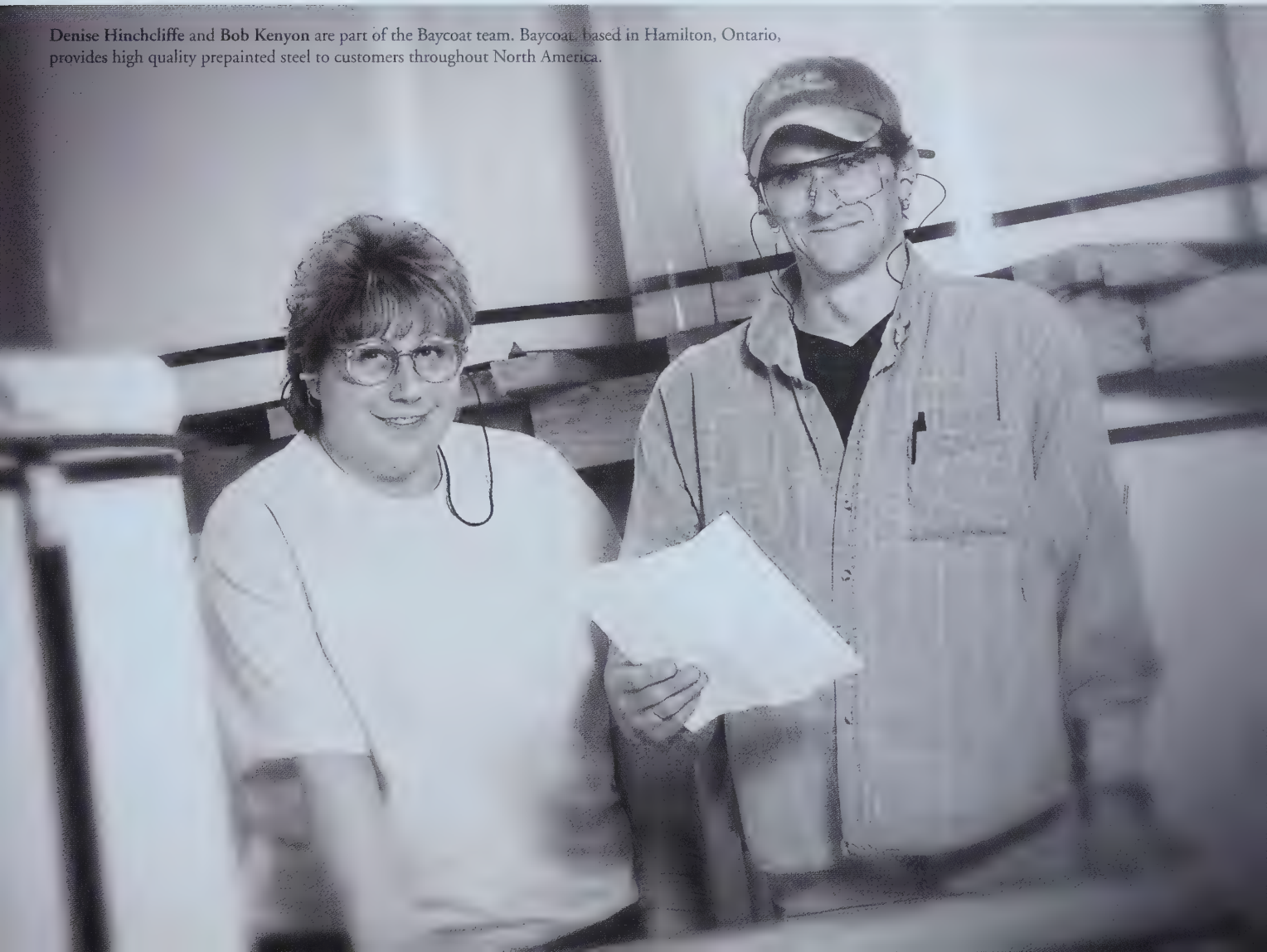
Dofasco holds interests in a number of joint venture companies. These companies are run by their own management teams and boards of directors and follow their own reporting requirements. Key environment, energy, health and safety data are not amalgamated or reported with Dofasco's.

However, as a participant in these ventures, Dofasco expects joint venture companies to operate responsibly. A summary table of key environmental and health and safety performance indicators is below.

Company	Facility	Key Performance Indicator				
Baycoat	Hamilton	**Air** Odour Complaints:	0	0	0	0
		Water Compliance with Sanitary Sewer Use By-laws: (# of times out of compliance)	0	0	1	0
Wabush Mines	Scully	**Water** % Compliance:	n/a	99.87	99.61	100
		Waste Hazardous: (Tons)	n/a	9.33	0.67	0.67
		Non-Hazardous: (Tons)	n/a	50.34	51.78	49.3
		Energy % Utilization of Available Hydroelectric Power:	n/a	86.4	76.4	>75
	Pointe Noire	**Reportable Spills:**	14	15	8	6
		Ambient Air % Compliance:	73	70	80	80
Gallatin Steel	Kentucky	**Water** # of Violations:	11	23	18	0
Quebec Cartier Mining Company	All Facilities	**Reportable Spills:**	27	11	13	0
		Notices of Infractions:	3	0	1	0
	Mont-Wright	**Water Regulations** % Compliance:	100	99	98.3	100
		Energy Electricity: (KWh per ton of concentrate)	31.36	29.7	31.5	32.5
	Pellet Plant	**Water Regulations** % Compliance:	100	100	100	100
		Energy Bunker C + Coke Breeze: (MJ per ton produced)	742.3	753.7	725.5	752.0
		Electricity (KWh per ton produced)	66.83	66.70	67.30	68.0
	Railroad	**Energy** Diesel Fuel: (litres per 1000 tons-km)	2.74	2.77	2.73	2.83 In 2002, idle consumption will be included.
	Port	**Energy** Bunker C: (kL)	5,477	7,062	6,187	5,725
		Electricity (MWh)	47.3	50.0	42.6	45.0
DNN Galvanizing	Windsor	**Utilities** Water: (m^3 per ton)	0.83	0.86	0.79	n/a
		Utilities Hydro: (KWh per ton)	131.30	134.9	123.4	n/a
		Utilities Natural Gas: (m^3 per ton)	39.67	40.82	35.22	n/a
Sorevco	Coteau-du-Lac	**Regulations** # of violations:	0	0	1	0

Company	Facility	Key Performance Indicator				
Baycoat	Hamilton	Lost Time Injury – Frequency*	1.7	3.8	0.9	0
		Severity**	49.9	173.5	40.2	n/a
Gallatin Steel	Kentucky	OSHA Recordables*	11.15	12.08	9.55	8.0
		Lost Work Day Case – Frequency*	0.26	0.72	0.49	n/a
Quebec Cartier Mining Company	All Facilities	Lost Time Injury – Frequency*	3.2	2.4	2.7	n/a
		Severity	54.7	35.9	31.2	n/a
DNN Galvanizing	Windsor	All Reported Injuries	22	12	19	n/a
		Compensable Injuries	9	8	10	0
		Lost Time Injuries	0	0	0	0
		Days Lost	0	0	0	0
Wabush Mines	Scully	Reportable Injury Frequency*	1.39	2.31	1.92	<1.59
	Pointe Noire	Reportable Injury Frequency*	16.9	12.8	14.0	10.7
		Lost Time Injury – Frequency*	5.4	4.4	9.7	3.9
Sorevco	Coteau-du-Lac	Lost Time Injuries	9	8	4	0
		All reported Injuries	10	11	6	4

* per 100 employee-years ** days lost per 100 employee-years



Denise Hinchcliffe and **Bob Kenyon** are part of the Baycoat team. Baycoat, based in Hamilton, Ontario, provides high quality prepainted steel to customers throughout North America.



Consolidated net income

millions of dollars

Normal operations
Other items

RESULTS OF OPERATION

2001 was one of the most challenging years ever faced by North American steelmakers, with markets characterized by excess supply, softening demand and low prices. In these difficult times, implementation of cost reduction initiatives contributed significantly to Dofasco being the only integrated North American steelmaker to post profitable results for the year.

Dofasco's 2001 consolidated net income was $26.7 million. After deducting preferred share dividends, earnings attributable to common shares were $0.35 per share.

In 2000, Dofasco reported consolidated net income of $188.7 million. After deducting preferred share dividends, earnings attributable to common shares were $2.47 per share.

Dofasco's 2001 financial statements incorporate a retroactive change in the method of calculating the diluted earnings per common share in accordance with new Canadian Institute of Chartered Accountants requirements. As a result of this change, the 2000 diluted earnings per share were restated from $2.42 to $2.46. This change is described in Note 2 to the consolidated financial statements.

Gross Income

Segmented analysis of gross income is provided for:

- Steel Operations (which includes the company's Hamilton operations, Dofasco USA, Powerlasers, Dofasco de Mexico, DoSol Galva (DSG) and Dofasco's share of Baycoat, DNN Galvanizing, Sorevco and Wabush Mines);
- Gallatin Steel Company; and
- Quebec Cartier Mining Company (QCM).

Note 18 to the consolidated financial statements provides further segmented information for each of these three reporting segments.

Dofasco's consolidated gross income declined by 35.1% in 2001 to $363.5 million from $560.5 million in 2000.

Steel Operations

Gross income from Steel Operations declined to $362.0 million in 2001 from $487.2 million in 2000. Lower earnings from the company's Hamilton operations (including DSG), primarily attributable to a significant decline in revenue, was the major reason for the 25.7% decline.

Sales

Shipments of flat rolled and tubular steel products in 2001 were 3,709,000 tons compared to the 2000 shipment level of 3,795,000 tons. This decline of only 2.3% represents a significant accomplishment in a year when flat rolled steel demand in North America declined by approximately 13% and markets continued to be impacted by high inventories and high levels of unfairly traded imports.

The slightly lower volumes and lower year-over-year selling prices across almost all products resulted in a 5.7% decline in total sales for the year for Steel Operations to $2,646.0 million from $2,805.0 million in 2000.

The average revenue realized per ton shipped only declined by $26 or 3.5% in 2001 as a higher valued sales mix helped mitigate the impact of the lower market prices. Recently completed upgrades to Dofasco's tinplate facilities



Steel shipments

millions of net tons

Hamilton
Gallatin



Steel production

millions of net tons

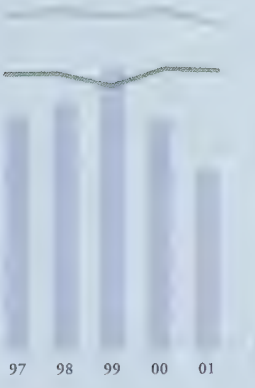
Hamilton production
Gallatin production
Purchased semi-finished steel

in Hamilton enabled a significant increase in shipments to consumer packaging markets in 2001. As well, a full year's production on the #2 tube mill resulted in tubular shipments increasing to almost 6% of the product mix in 2001 from 4% in 2000.

Cost of sales
A 1.5% decline in cost of sales to $2,284.0 million in 2001 from $2,317.8 million in 2000 was largely a result of the slightly lower shipment level and cost reduction initiatives implemented during the year in response to weakening market conditions. Cost savings were realized in areas such as outside contracting, raw materials, administration, maintenance purchases, outside processing, temporary labour and overtime.

Costs were also affected by a decline in the variable component of the company's total compensation program (profit sharing and variable compensation pay).

Overall, the cost per ton of flat rolled and tubular products shipped was relatively unchanged from 2000 as the cost reductions were offset by the impact of the higher cost mix and price increases for electricity, iron ore pellets, coal and natural gas.



Average revenue, cost and gross income
Hamilton operations

dollars per net ton
- Revenue
- Cost
- Gross income (right hand scale)

Gallatin Steel's results continued to be severely impacted by the steep decline in spot market prices for hot rolled products in the United States which began in the second half of 2000 and continued throughout 2001. In large part, the decline is attributable to high levels of often unfairly traded imports.

Dofasco's share of Gallatin's gross income in 2001 was a loss of $5.6 million, a $41.7 million decline from Dofasco's $36.1 million share of Gallatin's gross income in 2000.

Sales
Despite weak market conditions, Gallatin was able to increase its shipments by 90,000 tons to set a new record shipment level of 1,332,000 tons, of which Dofasco's share was 666,000 tons. Despite this increase in shipments, Dofasco's share of Gallatin's total sales revenue declined by 11.6% from $266.1 million in 2000 to $235.2 million in 2001, reflecting sharply reduced selling prices in 2001. The average revenue realized per ton of steel shipped declined by approximately $75 (or 17.7%) in 2001.

Cost of sales
Dofasco's share of Gallatin's cost of sales in 2001 was $240.8 million, an increase of $10.8 million from $230.0 million in 2000. The increase in cost was mainly due to the impact of higher shipments and an increase in the provision for doubtful accounts as a result of the current economic conditions. These were partially offset by a decrease in the cost of scrap that reduced the average cost per ton of steel shipped in 2001.

2001 was a very difficult year for QCM. Dofasco's share of QCM's gross income in 2001 was $7.1 million compared to $39.8 million in 2000.

Sales
Dofasco's share of QCM's revenue was $199.1 million in 2001, down from $269.6 million in 2000. QCM's shipments declined by 30.9% in 2001, primarily due to a labour disruption in the spring and declining demand from European and North American customers. To address these circumstances, mining operations were shut down for periods totaling more than three months during the year. Dofasco's share of QCM's shipments was 5.0 million tonnes in 2001 compared to 7.2 million tonnes in 2000.

Cost of sales
As a result of the lower shipments, Dofasco's share of QCM's costs in 2001 was $192.0 million, a reduction of $37.8 million from $229.8 million in 2000. However, apportioning fixed costs over the lower sales volumes resulted in a higher average cost per tonne.

Depreciation and amortization
Depreciation expense decreased marginally in 2001 to $253.6 million from $254.1 million in 2000. Depreciation was lower in Hamilton and at QCM, reflecting assets that became fully depreciated during 2000. This decrease was substantially offset by the impact of the first full year's depreciation on fixed assets at Powerlasers and other fixed asset additions during the year.

Interest on long-term debt
Interest expense decreased to $59.3 million in 2001 from $61.7 million in the previous year. The impact of scheduled repayments of higher cost debt at Dofasco, QCM, DNN and Sorevco was partly offset by a full year's interest on the $175 million of 7.5% Medium Term Notes issued in June of 2000 and the interest on the $125 million of 7.55% Medium Term Notes issued in October of 2001.

Interest and other income
Interest and other investment income declined significantly in 2001, to $5.7 million from $15.9 million in 2000.



97 98 99 00 01

EBIT per shipped ton

dollars per net ton

Dofasco Hamilton
Minimills
Other integrated mills

The decrease reflects lower interest rates, lower average cash balances and the $5.1 million gain realized on the demutualization of Sun Life Assurance Company of Canada in 2000.

Income taxes

In 2001, Dofasco's consolidated income tax expense was $29.3 million on pre-tax income of $56.3 million, an effective tax rate of 52.0%. This compares with an effective tax rate of 30.0%, or $78.2 million, on 2000's pre-tax income of $260.6 million.

The higher effective tax rate is primarily due to the impact of not recording a tax benefit for 2001 losses at Gallatin and Dofasco de Mexico. As well, the effective tax rate in 2000 was unusually low relative to Dofasco's normal rate of approximately 35%, reflecting a reduction in consolidated future income tax liability following Ontario and Canadian tax rate reductions announced during that year.

Cash Flow

Operating Activities

Cash provided from operations was $281.3 million in 2001 compared to $249.8 million in 2000. This results from net income plus income and expense items not affecting cash and changes in working capital in each year.

Income and expense items not affecting cash

Depreciation and amortization

Non-cash depreciation and amortization expense was $253.6 million in 2001 and $254.1 million in 2000.

Future income taxes

Income tax expense was reduced by non-cash future income tax recoveries of $32.2 million in 2001 and $29.2 million in 2000, primarily due to book depreciation being in excess of tax depreciation in the year.

Employee future benefits

The net non-cash component of employee future benefits expense was $7.5 million in 2001 and $8.4 million in 2000.

In 2001, the $20.9 million increase in the non-pension benefit liability more than offset the $13.4 million increase in the pension benefit asset. The increase in the pension asset was due to pension income of $17.2 million and plan contributions of $5.3 million, less $9.1 million of profit sharing expense that was funded by the Dofasco Supplementary Retirement Income Plan.

In 2000, the $14.7 million increase in the non-pension benefit liability more than offset the $6.3 million increase in the pension benefit asset.

Note 15 to the consolidated financial statements provides further information on employee future benefits.

Provision for blast furnace reline

A non-cash expense of $19.1 million in 2001 and $19.9 million in 2000 increased the provision for future blast furnace relines.

Changes in working capital

Accounts receivable

Cash of $44.4 million was generated through a reduction in consolidated accounts receivable, primarily due to lower sales revenue in November and December of 2001 compared with the same period in 2000.

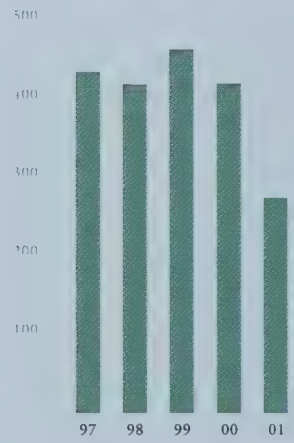
Inventories

A reduction in consolidated inventories generated cash of $6.9 million in 2001.

Inventories at Steel Operations decreased by $8.0 million. The decrease reflects a decline in finished goods inventory to more normal levels, a lower quantity and cost per ton of purchased slabs and a decrease in the cost per ton of hot band inventories as a result of lower production costs in 2001.

Despite shutdowns to control inventories, QCM inventories increased by $3.6 million as the decline in shipments outpaced the cut in production. December shutdowns at QCM were extended into February of 2002 to reduce inventory levels.

Gallatin's inventory was $2.5 million lower than a year earlier primarily due to a decrease in scrap inventory. At the end of 2000, Gallatin's inventory was higher than normal because it had purchased a significant amount of scrap in the fourth quarter to take advantage of lower prices.



Cash derived from operations

(before changes in working capital)
millions of dollars

Accounts payable
A decrease in consolidated accounts payable, primarily due to lower amounts payable for profit sharing and variable compensation in Hamilton, utilized cash of $39.4 million in 2001. Accounts payable at Dofasco's joint ventures also decreased, with the most significant component being a decline at QCM as the mine was shut down during December.

Income and other taxes receivable
Higher income and other taxes receivable utilized cash of $4.7 million in 2001. The increase is primarily due to the tax recovery recorded at QCM for its 2001 loss that will be carried back against prior years' taxable income.



Capital expenditures
millions of dollars

Investment Activities

Capital expenditures
Cash used for capital expenditures in 2001 was $203.9 million, relatively unchanged from $216.0 million in 2000. Major spending in Hamilton included $57 million for the completion of the hot mill improvement program and $12 million for automation control upgrades at the tinplate facilities. Other major capital spending included $45 million for the construction of Dofasco de Mexico.

Acquisitions
Dofasco made no acquisitions in 2001. In 2000, Dofasco acquired Powerlasers, a manufacturer of laser-welded blanks and related components, for $44.8 million.

Bank borrowings of joint ventures
An increase in Dofasco's share of bank borrowings at its joint ventures, primarily Gallatin and QCM, generated $19.6 million in 2001.

Long-term debt
The Medium Term Notes issued in October 2001 provided cash of $125.0 million, while $99.8 million was used for scheduled debt repayments at Dofasco, QCM, DNN and Sorevco.

Common shares repurchased
Dofasco did not repurchase any common shares in 2001 under the normal course issuer bid that expired on November 20th. In 2000, Dofasco purchased and cancelled 3.7 million common shares for $94.5 million.

Dividends
In 2001, Dofasco paid $81.5 million in dividends, relatively unchanged from the $80.6 million paid in 2000. Preferred share dividends accounted for $0.6 million of this total in both 2001 and 2000.

The quarterly common share dividend declared was $0.27 per share per quarter in 2001, compared to $0.25 per share in the first quarter and $0.27 per share for the last three quarters of 2000.

Cash and Liquidity

Cash and cash equivalents
For the reasons discussed above, Dofasco's consolidated cash position, including cash equivalents, increased by $41.8 million to $168.9 million at the end of 2001 from $127.1 million at the beginning of the year.

Debt ratio
At December 31, 2001, Dofasco's ratio of total debt to total debt plus equity was 30.6%, compared to 28.8% at December 31, 2000. After deducting cash reserves, the ratio of net debt to net debt plus equity was



Debt to debt plus equity ratio
% as at December 31
Net debt
Total debt

25.8% at the end of 2001, compared to 25.2% a year earlier.

The increase in the debt ratios is primarily attributable to the Medium Term Notes issued by Dofasco in 2001, partly offset by the higher cash and cash equivalents balance at the end of 2001 and scheduled debt repayments made during 2001 at Dofasco, QCM, DNN and Sorevco.

Available credit lines
Dofasco has credit facilities comprised of a $100 million one-year revolving line expiring December 30, 2002 and a $150 million three-year revolving line expiring December 31, 2004. At December 31, 2001, none of these revolving lines had been used.

Dofasco's joint ventures have lines of credit totaling $125 million of which $54 million was available at December 31, 2001.

Commitments
All joint venture debt is non-recourse to Dofasco except for a guarantee provided on the DNN debt of $56.5 million and a $25.0 million letter of credit in support of QCM's credit facility.

LABOUR RELATIONS

Dofasco's positive labour relations history is based on treating people fairly. Employees throughout the organization participate in various forms of profit sharing, gain sharing and variable compensation plans and thereby share in the company's financial success.

Dofasco respects the right of all employees to choose or refuse union representation. Our preference is to deal directly with our employees rather than through a third party that may not share our common interest in Dofasco's continued success. Employees at the company's Hamilton operations and at Powerlasers, Baycoat, DNN Galvanizing and Gallatin Steel are not unionized while most employees at Dofasco de Mexico, QCM, Sorevco and Wabush Mines are represented by labour unions.

QCM's collective agreement with its hourly employees expired on February 28, 2001. On March 19, after failing to reach a new collective agreement, QCM suspended all of its operations. QCM and its employees agreed to a new collective agreement in late April and operations resumed following the 6-week labour dispute.

During 2001, Local 772 of the International Union of Operating Engineers applied to the Ontario Labour Relations Board (OLRB) to represent a potential bargaining unit of stationary engineers and operators at Dofasco's Hamilton operations. The 94 employees potentially included in the bargaining unit voted on this matter in August. The OLRB ordered the ballot box sealed pending their determination with respect to the size of the bargaining unit and whether the union had sufficient evidence of union membership to have required the vote. These issues were argued before the OLRB in mid-February 2002 and a decision is expected by the end of June.

Also during 2001, the same local applied to the OLRB to represent Baycoat's maintenance employees, approximately 25 of their total workforce of 250 employees. The affected employees voted in October in favour of union representation. However, in March of 2002 the OLRB found that the bargaining unit proposed by the union was not appropriate for collective bargaining and accordingly dismissed the union's application for certification.

Late in 2001, the National Labour Relations Board in the United States authorized a vote to determine whether the United Auto Workers (UAW) would represent Powerlasers' Pioneer, Ohio production, maintenance and quality workers – 59 of the total Pioneer workforce of approximately 90. On January 23, 2002, by a vote of 44 to 15, the proposed bargaining unit decided against UAW representation.

MARKET OUTLOOK

Canadian and U.S. economies
2001 was a difficult year for both the Canadian and U.S. economies. Growth slowed sharply in the first half of the year and the tragic events of September 11th slowed the economy even further. Despite the significant weakness in the second half of the year, both economies registered real growth of approximately 1 1/2% for 2001 in total.

In Canada, the economic outlook is improving. January employment numbers showed the strongest increase in three years and the fourth increase in the last five months, buoyed by increased employment in both manufacturing and construction. Housing starts were at their highest level in many years in January, helped by mild weather and strong demand supported by low mortgage rates and recovering consumer confidence. Other interest rate sensitive areas of the economy are also performing well. Automotive sales remained strong in January following a strong fourth quarter and appliance sales have been holding at improved levels. With low inflation, monetary policy can remain stimulative until the general economic recovery is firmly entrenched. Business investment is expected to improve as the year progresses, supported by a recovery in corporate profits.

Though some uncertainty still exists, economic indicators, consumer confidence, business condition surveys and expansionary monetary and fiscal policies indicate that the U.S. economy should strengthen in the second quarter of 2002. The lowest interest rates in 40 years and tax relief will continue to support personal income growth and stronger consumer spending. Refinancing of current mortgages is also adding significantly to personal income available for discretionary spending. While layoffs are still being reported, employment levels in January declined by the smallest amount in five months. An end to inventory liquidation should support continued improvement in manufacturing orders. Continued weak corporate profits will likely delay any increase in business investment until the second half of the year.

For the full year 2002, Dofasco expects real growth of about 2% in both countries. During the second half of the year, the economies are expected to expand at near 4% annual rates.

Flat rolled steel
Flat rolled steel demand in 2001 was weak in the first half of the year, about 16.5% lower than in 2000 in both Canada and the United States. Steel demand declined further in the second half of 2001, down 3% in Canada and almost 5% in the U.S. from the already weak first half levels. For 2001 in total, flat rolled steel demand was down almost 14% in Canada and 13% in the U.S. As import levels declined during the year, domestic mill shipments were down a more modest 3% in Canada and 9% in the U.S. from their 2000 levels.



North American flat rolled steel demand

millions of net tons

Strengthening economic performance as 2002 progresses should support a gradual improvement in flat rolled steel demand from current low levels. However, demand for the year in total is expected to be little changed from last year's level in both Canada and the U.S.

Automotive

North America had its second best light vehicle sales year ever in 2001, down only 1.2% from 2000's all time record. Sales of domestically-made vehicles were down 3%, while import sales increased by 8%. As the economies slowed early in the year, consumer confidence and sales held up quite well, assisted by growing cash back incentives. However, for the first few weeks after the events of September 11th, sales were off by as much as 40%. Automakers responded with even more attractive incentive packages that resulted in very strong fourth quarter sales, 15% ahead of the same period in 2000.

In 2002, sales are projected to decline as automakers are expected to reduce the size of the incentive packages that they carried into the year. As well, 2001 results were buoyed by sales that, in the absence of the strong incentives, would have otherwise taken place in the first half of 2002. As the year progresses and U.S. and Canadian economies strengthen, sales should stabilize at lower levels. Overall, 2002 sales could be 7% to 9% lower than in 2001.

Automotive production in 2001 was down approximately 10% in Canada and the U.S., negatively impacted by the need to reduce vehicle inventories in 2001 and the continuing increase in the imported vehicle share of the North American market. Although 2002 production will be bolstered by the need to rebuild inventories, it is still expected to be about 4% to 5% below 2001 levels.

Construction

Due to reduced activity in the steel intensive portion of the construction market, Canadian mills shipped 5% less steel to Canadian construction customers in 2001 than in 2000. A further decline of 1% is predicted for 2002.

Residential

Despite the slowdown and uncertainty in the overall economy, housing activity continued to be stimulated by low mortgage rates, low inventories of new units for sale or rent and a tight resale market.

In Canada, housing starts grew by a healthy 8% in 2001, although some end-of-year starts may have been "borrowed" from 2002 as warm winter weather in central Canada favoured higher than normal building activity in the last quarter. Canadian housing starts this year are expected to decline by about 3% from the strong level in 2001 as mortgage rates begin to move higher in the second half of the year.

Housing starts in the U.S. grew by 1% in 2001, maintaining a historically strong pace. A small decline of 1% is expected for 2002.

Non-residential

In 2001, the square footage of non-residential building starts in Canada declined by 8% from 2000 levels. However, non-residential construction spending increased as money was spent updating existing structures and office space. Weakness was mainly felt in the industrial and commercial sectors due to economic slowing and rising business uncertainty. A further 5% decline in new square footage builds is expected in 2002, counter-balanced somewhat with good retrofitting activity.

A decline in square footage starts similar in degree to Canada's was also experienced in the U.S. non-residential sector in 2001. Although a strengthening trend is expected in the latter part of the year, U.S. non-residential construction activity is expected to decline a further 3% to 5% in 2002.

Manufacturing

Electrical machinery

Canadian mill steel shipments to the electrical machinery sector declined by 16% in 2001, largely driven by reduced manufacturing activity in North America. Steel inventories in the electrical machinery sector are expected to be replenished and result in a moderate improvement in 2002.

Appliances

Appliance shipments in Canada grew by more than 5% in 2001, with particular strength in the fourth quarter. Appliance shipments are expected to remain strong in 2002 and grow a further 5% from 2001.

In the U.S., appliance shipments ended the year slightly above the level of 2000 as strong fourth quarter shipments offset the weaker first half. Appliance inventories are expected to be replenished in the first part of 2002 before leveling off. U.S. appliance shipments in 2002 are expected to be slightly ahead of 2001.

Other manufacturing

Canadian steel mill shipments to other manufacturing sectors declined by 47% in 2001, primarily due to reduced activity in the railcar sector. Excluding that sector, the decline was approximately 10%.

Pipe and tube
The pipe and tube industry in Canada was impacted by the overall economic slowdown in 2001. Pipe and tube shipments by Canadian producers were down 4.7% from 2000 levels with domestic shipments off by 2.4% and export shipments down by 9.7%.

High fuel prices in early 2001 contributed to shipments to the oil and gas industry growing by 2.4% in 2001. Record levels of natural gas drilling continued into early 2001 as natural gas prices continued to rise. Prices peaked early in the year, then declined sharply. Natural gas prices have decreased 60% over 12 months and oil prices have dipped by 30%, a result of high inventory levels, a warmer than anticipated winter and a slumping North American economy.

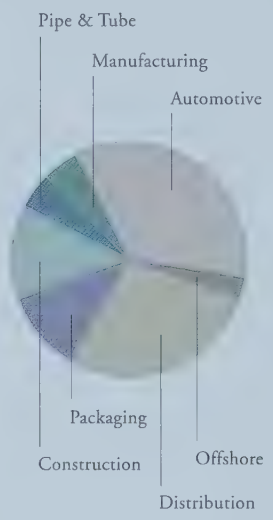
Drilling activity in Western Canada in 2002 is expected to decline by 25% from 2001 to a level still 18% ahead of the recent 10-year annual average. Lower drilling will reduce tube demand for the oil and gas industry, with shipments expected to decline by 10%. However, tube demand is expected to be stronger in the second half of 2002 as the North American economies recover.

Tubular products not destined for the oil country were also impacted by the economic downturn in 2001. Lower automotive production and construction activity contributed to domestic mechanical tubing shipments from Canadian producers declining by 2.5% in 2001. Given the outlook for automotive production, a further drop is expected in 2002.

Consumer packaging
Demand for tinplate steel from North American consumer packaging markets including processed food, aerosol, paint and chemicals declined in 2001. Consumption was down by approximately 8% from the previous year as a result of unfavourable weather conditions and a reduction in stocked canned food inventories.

However, upgrades to Dofasco's tin mill facilities in Hamilton enabled Dofasco, the only Canadian producer of tinplate, to increase tinplate shipments by more than 10%, surpassing the previous best shipping year by 7%.

North American tinplate consumption is expected to increase to more traditional levels in 2002.



2001 market mix
Hamilton operations

Industrial packaging
Steel mill shipments to Canadian industrial packaging markets fell approximately 18% in 2001, reflecting the reduced demand for steel drums and pails in the weaker manufacturing sector. Demand in 2002 is expected to remain weak due to declining automotive activity and generally low manufacturing activity.

Distribution
The steel service centre industry was impacted by the weak economy in 2001. Shipments from Canadian service centres decreased by 3% while U.S. service centres reported 14% lower shipments in 2001 compared with 2000.

Shipments by Canadian steel producers to service centres were up about 5% in 2001 over 2000 (excluding tinplate), largely due to import displacement. Reported year-end inventories at Canadian service centres were unchanged from 2000, whereas U.S. service centre inventories decreased about 10% and are considered to be at low levels.

In 2002, shipments from Canadian service centres are expected to be similar to those of 2001. In the first half of the year, shipments are expected to be weak due to reduced manufacturing activity in the automotive, general fabrication and non-residential construction markets. Increased economic activity in the second half of the year should result in increased steel shipments for the service centre industry.

RISKS AND UNCERTAINTIES

Dofasco's performance may be affected by a number of factors that relate to the level of activity and stability both in the economy in general and in the steel industry in particular.

Steel trade
The supply of steel in North America and its impact on price is affected both by overall global industry capacity and the level of overseas imports into North America. When there is a high level of imports into the North American market, as in 2000 and 2001, steel prices generally decline.

Dofasco has structured itself to be able to compete successfully against fairly traded steel imports. However, high volumes of low priced steel imports continued to enter North American markets in 2001. Many of those imports were "dumped" – traded in violation of international trade rules which prohibit selling a product in a foreign market at a price below either the cost of production or the selling price in the producer's home market. Steel selling prices in North America declined significantly during 2001 primarily due to the high level of unfairly-traded imports in 2000 which created unusually large inventory levels and ongoing



97 98 99 00 01

Flat rolled steel imports

% of demand

Canada

United States

high import levels in 2001. This contributed to the worsening financial performance of most North American steelmakers, including Dofasco.

In the absence of a long-term solution to the problem of unfair international steel trade, Dofasco, Gallatin Steel and other members of the Canadian and U.S. steel industries continued to pursue unfair trade complaints in 2001 to address the issue on a short-term basis.

In Canada, hot rolled imports from Brazil, Bulgaria, China, India, Macedonia, South Africa, Taiwan, Ukraine, and Yugoslavia were found by the Canada Customs and Revenue Agency (CCRA) to have been dumped into Canada and by the Canadian International Trade Tribunal (CITT) to have injured the Canadian steel industry. Anti-dumping duties ranging from 8% to 169% were imposed on future imports of hot rolled steel from these countries for a five-year period.

Imports of corrosion-resistant (galvanized) steel from China, India, Malaysia, Portugal, Russia, South Africa and Taiwan were found by the CCRA to have been unfairly traded and preliminary anti-dumping margins were assessed. However, the CITT subsequently ruled that these dumped imports had not injured the domestic steel industry and the anti-dumping margins were removed.

Imports of cold rolled steel from Brazil, China, Italy, Luxembourg, Macedonia, Malaysia, South Africa, South Korea and Taiwan were also found by the CCRA to have been dumped into Canada. In this case as well, the CITT ruled that the unfair trade had not harmed the domestic industry.

Dofasco disagrees strongly with the CITT's decisions in the galvanized and cold rolled cases and has appealed both. Clearly, the dumped imports caused injury.

In the United States, hot rolled imports from Argentina, China, India, Indonesia, Kazakhstan, Netherlands, Romania, South Africa, Taiwan, Thailand, and Ukraine were found by the U.S. International Trade Commission (ITC) to have injured the U.S. steel industry and anti-dumping duties have been assessed by the Department of Commerce.

The U.S. steel industry has also initiated an unfair trade case against imports of cold rolled steel from 20 countries.

In October, the ITC announced its preliminary rulings in its Section 201 investigation, finding that foreign imports have significantly harmed much of the U.S. steel industry. The President announced restrictions and duties on steel imports into the U.S. in early March 2002. Steel from Canada is not affected by the restrictions.

However, in order to ensure that imports otherwise destined for the U.S. do not enter Canada and further injure the Canadian steel industry, the industry requested that the Government of Canada initiate a safeguard action on certain steel products under Section 20 of the CITT Act.

A long-term solution to unfair international steel trade can best be achieved through a reduction in worldwide steel capacity. The steel committee of the Organization for Economic Co-operation and Development (OECD) reports that closures of up to 138 million tonnes of uneconomic capacity could be possible by 2010. While market forces can be expected to contribute to some of this closure, co-ordinated international government action will be necessary to accomplish such an aggressive target. The Canadian steel industry will continue to work closely with the federal government to participate in the OECD process.

Electricity

The Ontario electricity market is scheduled to be deregulated on May 1, 2002. Energy (commodity) and regulatory costs will be "unbundled" in the deregulated market. Regulatory costs include transmission, distribution, debt reduction and other system costs. The total overall cost of electricity is expected to increase, due to the profit structure of regulated entities, implementation of a debt reduction charge, phase-out of surplus power rates and an increase in commodity prices.

Every Ontario-based consumer of electricity will pay the debt reduction charge until Ontario Hydro's legacy debt is eliminated (estimated to be 10-17 years). Dofasco estimates its debt reduction charge will be approximately $15 to $20 million per year, which represents a competitive disadvantage against electricity consuming steelmakers in neighbouring jurisdictions.

Competitive forces are likely to emerge slowly in the new market, increasing the exposure of all Ontario electricity customers to potentially higher and more volatile commodity pricing in the foreseeable future. Dofasco's electricity sourcing strategy is designed to be responsive to the evolving nature of the deregulated market and to mitigate the impact of potentially higher and more volatile pricing. In this regard, Dofasco's risk management approach will include an appropriate portfolio of fixed price contracts, spot price exposure, and operational strategies.

Other energy sources
All Dofasco operations are susceptible to the fluctuations that can occur in the market prices of other energy sources, such as coal, oil and natural gas. Dofasco manages its price and availability risk through a portfolio of short and long-term supply agreements and multiple sources where appropriate.

Dofasco also reduces the amount of outside fuel gases that need to be purchased by maximizing the use of recycled by-product fuel gases (such as coke oven and blast furnace gases).

Raw materials
Dofasco's two largest raw material requirements are iron ore and scrap steel.

Dofasco has secure sources for its Hamilton iron ore requirements, primarily from mines in Quebec and Newfoundland in which the company has ownership interests.

Other sources of iron ore are readily available, both in North America and from abroad. Dofasco pays a competitive price for its iron ore, as industry prices are set annually on a global basis.

Dofasco's steelmaking operations in Hamilton and at Gallatin Steel consume large quantities of steel scrap. Dofasco and Gallatin have viable long-term sources of steel scrap which are subject to the month-to-month price fluctuations that characterize scrap markets, caused by overall availability, market selling prices of steel and general economic conditions.

Quebec Cartier Mining
QCM anticipates being in non-compliance with certain financial covenants of its long-term debt agreement during 2002. Should it not be able to obtain a waiver or renegotiate the terms of the agreement, the debt would be classified as current. QCM management believes that a renegotiated agreement will be obtained if required. Dofasco and Caemi of Brazil, Dofasco's joint venture partner in QCM, have each issued $25 million letters of credit in support of QCM's credit facility. Dofasco and Caemi have both indicated their interest in selling their shares of QCM.

Industry competition
The nature of competition in the global steel industry is undergoing fundamental change. Significant consolidation has taken place and is continuing in Europe and Japan.

Success in the steel industry is dependent on a company's ability to differentiate itself in the market, often from developing or accessing technological innovation. As the industry continues to consolidate on a worldwide basis, companies may choose to limit such access to technological developments in the future. Dofasco's reputation as an innovator, its longstanding relationships with other recognized industry leaders and its financial strength has enabled it to continue to develop and access world-class technology.

In the United States, several steel companies considering merging are seeking assurance from the U.S. government that they can be relieved of certain legacy costs such as pension and health care liabilities. While Dofasco fundamentally opposes such government subsidization, it would support assistance of this nature if it leads to the permanent closure of unsustainable operations or uneconomic capacity.

Economic cycles
The North American steel industry is characterized by cycles in supply and demand that relate to the general economic environment and to the level of manufacturing activity in several key industries such as automotive, construction, packaging, consumer goods and oil and gas. The financial performance of North American steel companies, including Dofasco, typically suffers during the troughs of these cycles.

Dofasco's strong market positioning, its strategy of maximizing the proportion of value-added steel products in its mix and delivering industry-leading customer service while maintaining a focus on earning the cost of capital over a full business cycle, has successfully mitigated the impact of these economic cycles.

Reliance on specific industrial sectors
The automotive industry is Dofasco's largest market segment. Dofasco's customer relationship strategy is designed to ensure that the company remains a supplier of choice to the North American automotive industry. Strategic investments such as DoSol Galva, Powerlasers, the two tube mills in Hamilton and the tube mill and steel processing facility at Dofasco de Mexico in Monterrey, Mexico maintain and enhance Dofasco's position as a leading automotive steel supplier.

Foreign exchange rate and commodity price risk
Dofasco and some of its joint ventures utilize financial instruments to manage the risk associated with fluctuations in foreign exchange rates and commodity prices. Dofasco believes that its exposure to credit and market risks for these financial instruments is negligible. Dofasco does not hold or issue derivative financial instruments for trading or for speculative purposes.

Environment
Dofasco and its subsidiaries and joint ventures maintain close contact with environmental authorities and comply with all laws and regulations relating to the environment, including those that govern emissions and discharges from operating facilities. In Hamilton, Dofasco has in place a voluntary Environmental Management Agreement with the Canadian and Ontario governments that generally surpasses the requirements of current legislation.

Dofasco's Management's Discussion and Analysis includes statements and expectations about future performance that are based on assumptions, uncertainties and management's best estimates of future events. As a result, readers are cautioned that actual results may differ from expected results.

for the years ended December 31 (in millions except per share amounts)	2000*
Income	
Sales	$ 3,201.1
Cost of sales (before the following item)	2,601.8
Employees' profit sharing (note 14)	38.8
	2,640.6
Gross income	560.5
Depreciation and amortization	254.1
Operating income	306.4
Interest on long-term debt	61.7
Interest and other income	(15.9)
Income before income taxes	260.6
Income tax expense (note 12)	78.2
	182.4
Minority interest	(6.3)
Net income	$ 188.7
Earnings per Common Share (note 9)	
Basic	$ 2.47
Diluted	$ 2.46
	$ 1.06
Retained Earnings	
Balance at beginning of year	$ 968.7
Net income	188.7
	1,157.4
Dividends declared:	
Preferred shares	0.6
Common shares	80.6
Premium paid on repurchase of common shares	55.4
	136.6
Balance at end of year	$ 1,020.8

See accompanying notes to consolidated financial statements.

* Restated – see note 2

December 31 (in millions)	2001	2000
Current Assets		
Cash and cash equivalents	$ 168.9	$ 127.1
Accounts receivable	313.2	355.6
Inventories (note 4)	848.5	853.5
Income and other taxes receivable	19.9	14.6
Future income tax assets (note 12)	3.3	4.2
	1,353.8	1,355.0
Fixed and Other Assets		
Fixed assets (note 5)	1,969.9	2,003.6
Future income tax assets (note 12)	45.7	43.0
Other assets (note 6)	140.3	122.0
	2,155.9	2,168.6
Total assets	$ 3,509.7	$ 3,523.6
Current Liabilities		
Bank borrowings of joint ventures (note 8)	$ 64.2	$ 43.6
Accounts payable and accrued charges	297.4	339.8
Dividends payable	20.4	20.4
Current requirements on long-term debt (note 8)	93.0	108.3
	475.0	512.1
Long-term Liabilities		
Long-term debt (note 8)	643.2	597.9
Employee non-pension benefits (note 15)	347.0	326.1
Provision for relining blast furnaces and other	66.8	44.3
	1,057.0	968.3
Future Income Tax Liabilities (note 12)	137.8	170.3
Minority Interest	22.3	20.4
Shareholders' Equity		
Preferred shares (note 9)	11.9	12.1
Common shares (note 9)	793.5	792.7
Retained earnings	966.0	1,020.8
Currency translation adjustment (note 17)	46.2	26.9
	1,817.6	1,852.5
Total liabilities and shareholders' equity	$ 3,509.7	$ 3,523.6

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J. T. Mayberry
Director

C. H. Hantho
Director

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in millions)	2001	2000
Cash Provided From (Used for)		
Operating Activities (note 13)	$ 281.3	$ 249.8
Investment Activities		
New facilities	(203.9)	(216.0)
Acquisition (note 3)	—	(44.8)
Other investments	(1.6)	(0.3)
	(205.5)	(261.1)
Financing Activities		
Increase in bank borrowings of joint ventures	19.6	26.0
Issue of long-term debt	125.0	175.0
Repayment of long-term debt	(99.8)	(91.5)
Equity contribution by minority interest	1.6	5.2
Redemption of preferred shares	(0.3)	(0.3)
Common shares issued	0.8	0.4
Common shares repurchased	—	(94.5)
Dividends paid	(81.5)	(80.6)
	(34.6)	(60.3)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	0.6	1.6
Cash and Cash Equivalents		
Increase (decrease) for year	41.8	(70.0)
Balance at beginning of year	127.1	197.1
Balance at end of year	$ 168.9	$ 127.1

See accompanying notes to consolidated financial statements.

. Accounting Policies

The consolidated financial statements for 2001 and 2000 have been prepared by the Corporation in accordance with Canadian generally accepted accounting principles and are within the framework of the accounting policies summarized below:

Basis of consolidation – The consolidated financial statements include the accounts of the Corporation, its subsidiaries and the proportionate share of the assets, liabilities and results of operations of its joint venture activities. The remaining long-term investments are carried at cost.

Cash and cash equivalents – Cash and cash equivalents includes cash on deposit and term deposits with remaining maturities of less than three months at acquisition.

Inventories – Inventories are valued at the lower of average cost and net realizable value.

Fixed assets – Fixed assets are recorded at their historical cost.

Depreciation is computed generally by the straight-line method applied to the cost of assets in service at annual rates based on their estimated useful lives, as follows:

Buildings	2.5 to 5%
Equipment and machinery	5 to 25%

Pre-production, development and stripping expenditures – Pre-production and development expenditures to bring mining sectors into production are deferred and amortized on a straight-line basis over a period relating to the individual economic residual life of the mining sector.

Stripping expenditures that are incurred to extend mine life are deferred and amortized over the extended mine life. If it is determined that an investment in deferred stripping is not recoverable over the productive life of the property, the unrecoverable portion is charged to earnings in the year such determination is made.

Revenue recognition – Revenue from the sale of manufactured products is recognized when title passes, which generally occurs upon shipment to customers.

Blast furnace relines – The Corporation's blast furnaces periodically require extensive relining. The estimated future costs of the relines are charged to income on a straight-line basis over the period to the next anticipated reline date and are accumulated as a provision for blast furnace relines. The actual costs of relines are charged against the accumulated provision as incurred.

Income taxes – The Corporation follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Translation of foreign currencies – Foreign currency monetary assets and liabilities of domestic operations are translated at year end exchange rates while foreign currency revenues and expenses are translated at average exchange rates prevailing during the year.

Dofasco de Mexico and Dofasco USA are classified as integrated foreign operations. Consequently, their monetary assets and liabilities have been converted to Canadian dollars using the exchange rate in effect at the balance sheet date. All other assets and liabilities are converted at historical rates. Revenues and expenses are translated at the average exchange rates for the year except depreciation, which is translated at the historical rate applicable to the related asset.

Dofasco's other foreign operations are classified as self-sustaining. Consequently, their assets and liabilities are translated to Canadian dollars using the year-end exchange rates. Revenues and expenses are translated at the average rates during the year. Exchange gains or losses on translation of the Corporation's net investment in the operations are deferred as a separate component of shareholders' equity.

The appropriate amounts of exchange gains or losses accumulated in the separate component of shareholders' equity are reflected in income when there is a reduction in the Corporation's net investment in the operations that gave rise to such exchange gains and losses.

Gains and losses on foreign currency liabilities which have been identified as a hedge against exposure on future foreign currency revenues, are deferred and matched to the future revenue stream, provided there is reasonable assurance that the hedge is and will continue to be effective.

Employee benefit plans – The cost of pension and post-employment benefits (including medical benefits, dental care, life insurance and certain compensated absences) related to employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method prorated on service and management's best estimates of investment yields, salary escalation and other factors. Pension plan assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are amortized over the remaining average service life of active employees. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of active employees.

Stock based compensation plans – The Corporation maintains stock based compensation plans pursuant to which common share stock options, some with attached stock appreciation rights, are granted to executive officers and other employees. Compensation expense is recognized in the accounts only in respect of amounts paid on the settlement of stock appreciation rights. Any consideration paid by employees on the exercise of stock options is credited to share capital.

Earnings per common share – Earnings per common share is calculated on the basis of net income for the year, less preferred dividends, divided by the monthly weighted average number of common shares outstanding during the year.

Diluted earnings per common share reflect the assumed conversion of all dilutive securities using the treasury stock method.

2. Accounting Change

Effective January 1, 2001 the Corporation retroactively adopted the new recommendations of the CICA with respect to the computation of diluted earnings per common share. Under the new standards, the treasury stock method is used in determining the dilutive effect of options. Previously, the imputed earnings approach was used.

As a result of this change, diluted earnings per common share for 2000 were restated from $2.42 to $2.46. This change had no significant impact on the current year's diluted earnings per share.

3. Acquisitions

Effective May 8, 2000, the Corporation acquired all of the issued and outstanding common shares of Cosma Powerlasers Limited and Cosma Powerlasers Corporation, manufacturers of laser-welded blanks and related components, for cash consideration of $44.8 million. The acquisition was accounted for using the purchase method.

The purchase price was allocated in the accounts based on the estimated fair value of the assets acquired less liabilities assumed as follows:

	Millions
Non-cash working capital	$ 5.2
Fixed assets	30.0
Goodwill	7.6
Future income tax asset (net)	3.9
Long-term debt	(1.9)
Total consideration and net assets acquired	$ 44.8

4. Inventories

(in millions)	2001	2000
Raw materials and other inventories	$ 346.9	$ 329.6
Semi-finished and finished steel products	501.6	523.9
	$ 848.5	$ 853.5

5. Fixed Assets

	2001		2000	
(in millions)	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	$ 46.8	$ —	$ 43.7	$ —
Buildings	743.7	420.8	738.1	388.0
Equipment and machinery	4,440.4	2,992.6	4,286.5	2,793.1
Construction in progress	152.4	—	116.4	—
	$ 5,383.3	$ 3,413.4	$ 5,184.7	$ 3,181.1
Net book value	$ 1,969.9		$ 2,003.6	

The estimated amount required to complete authorized capital projects is $80.4 million at December 31, 2001. The majority of these expenditures will be incurred in the next year.

6. Other Assets

(in millions)	2001	2000
Pre-production, development and stripping expenditures	$ 50.2	$ 46.9
Deferred pension cost	55.2	41.7
Investments	12.9	12.4
Goodwill	6.3	7.0
Other	17.7	14.0
	$ 140.3	$ 122.0

The Corporation has a 50% interest (except Wabush Mines – 24%) in the following operations:

Baycoat (partnership) – a steel coil coating operation

DNN Galvanizing Limited Partnership – a galvanizing operation

Gallatin Steel Company (partnership) – a minimill thin slab casting facility

Quebec Cartier Mining Company – an iron ore mining operation

Sorevco and Company, Limited (partnership) – a galvanizing operation

Wabush Mines – an iron ore mining operation

The Corporation's proportionate share of the major components of its joint ventures are summarized below (before eliminations and including related income taxes):

(in millions)	2001	2000
Balance sheets		
Working capital	$ 29.7	$ 24.1
Fixed and other assets	583.9	605.9
Future income tax assets	45.1	42.9
	658.7	672.9
Long-term liabilities	149.8	133.2
Future income tax liabilities	47.4	47.5
	197.2	180.7
Net investment	$ 461.5	$ 492.2
Statements of income		
Revenues	$ 567.0	$ 686.0
Expenses	608.4	657.6
Net income	$ (41.4)	$ 28.4
Statements of cash flows		
Cash derived from (used for):		
Operations	$ 17.4	$ 59.6
Investment activities	(10.2)	(31.1)
Financing activities	7.6	2.5
Effect of exchange rate changes on cash		—

Long-term Debt

(in millions)	2001	2000
Dofasco		
Medium-term notes		
– 7.5% maturing 2005	$ 175.0	$ 175.0
– 7.55% maturing 2008	125.0	—
Notes – 9.95% maturing 2003	79.7	111.6
– 9.81% maturing 2007	210.0	245.0
	589.7	531.6
DoSol Galva		
Notes – variable rates maturing 2004	25.0	25.0
Joint ventures (proportionate share)		
QCM – LIBOR, currently at 7.9%, maturing 2004, denominated in U.S. funds	53.6	70.8
DNN – 6.4% maturing 2008	56.5	64.6
Other	11.4	14.2
	121.5	149.6
Total long-term debt at December 31	736.2	706.2
Less current requirements	93.0	108.3
	$ 643.2	$ 597.9

Requirements for repayment of long-term debt within the next five years are as follows:

(in millions)	
2002	$ 93.0
2003	$ 114.7
2004	$ 84.1
2005	$ 218.7
2006	$ 43.5

(i) Dofasco –

On October 1, 2001, under its Medium Term Note program, Dofasco issued $125 million of 7.55% unsecured, non-callable notes maturing October 1, 2008 (2000 – $175 million of 7.5% unsecured, non-callable notes maturing in 2005). This completes the $300 million program established through the filing of a Short Form Prospectus on May 25, 2000.

Dofasco has credit facilities comprised of a $100 million one-year revolving line expiring December 30, 2002 and a $150 million three-year revolving line expiring December 31, 2004. At any time during its term, Dofasco may request that the one-year facility be extended to its maximum term of one year. On any of its anniversaries, Dofasco may request that the three-year facility be extended for an additional year. As of December 31, 2001, Dofasco has not drawn on these operating lines.

(ii) DoSol Galva –

The long-term debt of DoSol Galva is guaranteed by its minority shareholder and is non-recourse to Dofasco.

(iii) Joint ventures –

Certain assets of some of our joint ventures have been pledged as collateral for their respective loans, all of which are non-recourse to Dofasco except for a guarantee provided on the DNN debt and a $25 million letter of credit in support of Quebec Cartier Mining's (QCM) credit facility.

At December 31, 2001, the joint ventures had lines of credit with a maximum availability of $125 million bearing interest at rates between prime and prime plus 2.5% of which $54 million was available.

In 2001, QCM renegotiated its long-term debt agreements. At the present time, QCM management anticipate being in non-compliance with certain financial covenants during 2002. Should they not be able to obtain a waiver or renegotiate the terms of the agreement, the debt would be classified as current. QCM management believes that a renegotiated agreement will be obtained if required.

At December 31, 2001, Gallatin was in non-compliance with certain of its financial covenants under its debt agreements. Gallatin management has obtained a waiver of the covenant violations and has negotiated an amendment to the debt agreement modifying some of the existing terms.

9. Capital Stock

(i) Preferred shares –

Authorized – preferred shares issuable in series:

Class A preferred shares – 500,000

Class B preferred shares – unlimited

Class C preferred shares – unlimited

Issued less redeemed at December 31:

	Shares (in thousands)		(in millions)	
	2001	2000	2001	2000
Class A preferred shares 4 3/4% cumulative redeemable preferred shares, series A	119	121	$ 11.9	$ 12.1

Class A preferred shares

Under the share provisions, the Corporation is to establish in each year an account equal to 2% of the amount paid up on all series A preferred shares outstanding in that year for the purchase of such shares to the extent available in that year at prices up to the issue price of $100 plus costs of purchase. During 2001, 2,500 shares were purchased for cancellation for $0.2 million (2000 – 2,500 for $0.3 million). The preferred shares are redeemable at the option of the Corporation at a price of $101 per share plus accrued and unpaid dividends. The annual purchase requirement and redemption rights are suspended when dividends are in arrears.

(ii) Common shares –

Authorized – unlimited

Changes in the outstanding common shares during each of the past two years are summarized below:

	Shares (in thousands)	(in millions)
Outstanding at December 31, 1999	78,597	$ 831.4
Shares issued for cash under the employee stock option plans	23	0.4
Shares repurchased	(3,700)	(39.1)
Outstanding at December 31, 2000	74,920	792.7
Shares issued for cash under the employee stock option plans	35	0.8
Outstanding at December 31, 2001	74,955	$ 793.5

The normal course issuer bid filed in November 2000 expired during the year with no shares being repurchased.

Under a previous normal course issuer bid, the Corporation acquired 6,900,000 common shares between September 14, 1999 and September 13, 2000.

(iii) Basic and diluted earnings per share –

The reconciliation of the numerator and denominator for the calculation of basic and diluted earnings per share is as follows:

(in millions, except number of shares and per share amounts)	Years Ended Dec. 31, 2001	2000
Net income	$ 26.7	$ 188.7
Less: Preferred share dividends	(0.6)	(0.6)
Income available to common shareholders	$ 26.1	$ 188.1
Basic earnings per share		
Weighted average number of shares outstanding (000's)	74,944	76,293
Basic earnings per share	$ 0.35	$ 2.47
Diluted earnings per share		
Weighted average number of shares outstanding (000's)	74,944	76,293
Dilutive effect of stock options (000's)	105	160
Adjusted weighted average number of shares outstanding (000's)	75,049	76,453
Diluted earnings per share	$ 0.35	$ 2.46

For the year ended December 31, 2001 options to purchase 509,700 common shares (2000 – nil) were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average price of the common shares.

Stock Based Compensation Plan

The Corporation is authorized to grant common share stock options to certain executive officers and employees. The exercise price of the options may not be less than the market value of the common shares on the date of the grant. Options vest equally on the first, second and third anniversary date of the grant and have a term not to exceed ten years.

A summary of the status of the Corporation's stock based compensation plans as of December 31, 2000 and 2001 and changes during the year are as follows:

	Shares	Weighted Average Exercise Price
Balance outstanding at December 31, 1999	1,841,809	$ 22.61
Authorized	506,100	24.95
Exercised	(52,300)	19.31
Balance outstanding at December 31, 2000	2,295,609	23.20
Authorized	549,300	24.35
Exercised	(87,609)	21.[illegible]
Forfeited/expired	(20,000)	24.25
Balance outstanding at December 31, 2001	2,737,300	$ 23.47

The following table summarizes information on stock options outstanding at December 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Exercisable at December 31, 2001	Weighted Average Exercise Price
$14.75 - $21.45	548,500	3.34	$ 20.47	548,500	$ 20.47
$23.85 - $25.95	2,188,800	7.67	24.22	1,146,600	24.11
	2,737,300	6.80	$ 23.47	1,695,100	$ 22.93

Of the options outstanding at December 31, 2001, 1,694,500 have attached stock appreciation rights. Amounts charged to income as compensation expense in each of 2000 and 2001 were not material.

11. Shareholder Rights Plan

On May 4, 2001, the shareholders of the Corporation approved a new shareholder rights plan (the "New Plan") which is a successor to similar plans which have been in place since 1989. One right (a "Right") was issued under the New Plan for each outstanding common share and one Right will be issued in respect of each common share issued prior to the expiry of the New Plan. No consideration is payable by a shareholder upon issuance of the Rights. The New Plan will terminate at the close of the annual general meeting of shareholders in 2004, if not terminated earlier.

The New Plan is intended to ensure that, in the event of a bid for control of the Corporation, shareholders will receive full and fair value for their shares and will not be subject to abusive or coercive take-over strategies and that the Board of Directors will have sufficient time to evaluate the bid, negotiate with the bidder, seek out alternative bidders and explore other ways of maximizing shareholder value.

Rights are not exercisable until certain events occur. If anyone (an "Acquiring Person") wishes to acquire 20% or more of the Corporation's voting shares, it may (i) negotiate terms which the Board of Directors of the Corporation approve as being fair to all shareholders or, alternatively (ii) without Board approval, make a "permitted bid" which must contain provisions specified in the New Plan and be accepted by independent shareholders holding more than 50% of the then outstanding voting shares. If the Acquiring Person acquires 20% or more of the Corporation's voting shares other than as described above (subject to certain exceptions), the Rights will become exercisable automatically allowing holders (other than the Acquiring Person) to purchase common shares at a 50% discount. The Board of Directors may, in certain circumstances, redeem the then outstanding Rights at a redemption price of $0.001 per Right.

The income tax expense is comprised of:

(in millions)	2001	2000
Current	$ 61.5	$ 107.4
Future	(32.2)	(29.2)
	$ 29.3	$ 78.2

The income tax expense differs from the amount calculated by applying Canadian income tax rates (Federal and Provincial) to income before income taxes, as follows:

(in millions)	2001	2000
Income before income taxes	$ 56.3	$ 260.6
Income tax expense computed using statutory income tax rates	$ 24.2	$ 114.4
Add (deduct):		
Manufacturing and processing credit	(10.8)	(21.5)
Effect of different rates in foreign jurisdictions	4.2	(1.7)
Benefit of previously unrecognized losses of U.S. subsidiaries	—	(6.8)
Minimum taxes	4.5	2.8
Unrecorded income tax benefit arising from losses of foreign subsidiaries	11.7	—
Net future income tax benefit resulting from reduction in tax rates	(8.5)	(3.5)
Other	4.0	(5.5)
	5.1	(36.2)
Income tax expense	$ 29.3	$ 78.2

Components of future income taxes by jurisdiction are summarized as follows:

(in millions)	2001	2000
Canada		
Current Assets –		
Accounting provisions not currently deductible for tax purposes	$ 10.7	$ 12.9
Inventory of production rolls	(7.4)	(8.7)
Future income tax assets	$ 3.3	$ 4.2
Liabilities –		
Tax depreciation in excess of book depreciation	$ 250.4	$ 290.3
Accounting provisions not currently deductible for tax purposes	(118.1)	(116.5)
Other	5.5	(3.5)
Future income tax liabilities	$ 137.8	$ 170.3
Foreign		
Assets –		
Net operating loss carryforward	$ 109.1	$ 100.1
Tax depreciation in excess of book depreciation	(62.4)	(53.7)
Other	(1.0)	(3.4)
Future income tax assets	$ 45.7	$ 43.0

At December 31, 2001, U.S. subsidiaries have accumulated losses for tax purposes of approximately U.S. $53.4 million (2000 – U.S. $40.2 million) for which no future tax benefit has been recognized in the accounts. These losses expire between 2018 and 2021.

Additionally, a Mexican subsidiary has a tax loss of approximately 35 million pesos for which no future tax benefit has been recognized. This loss expires in 2011.

13. Supplemental Cash Flow Information

(i) Cash derived from operations –

(in millions)	2001	2000
Net income for year	$ 26.7	$ 188.7
Add (deduct) items not affecting cash –		
Depreciation and amortization	253.6	254.1
Future income taxes	(32.2)	(29.2)
Employee future benefits	7.5	8.4
Provision for blast furnace reline	19.1	19.9
Other	(0.6)	(22.2)
	274.1	419.7
Add (deduct) changes in non-cash components of working capital –		
Accounts receivable	44.4	(56.8)
Inventories	6.9	(76.5)
Accounts payable and accrued liabilities	(39.4)	33.8
Income and other taxes receivable	(4.7)	(70.4)
	$ 281.3	$ 249.8

(ii) Other –

(in millions)	2001	2000
Cash paid for interest	$ 61.0	$ 65.9
Cash paid for income taxes	$ 60.3	$ 182.9

14. Employees' Profit Sharing on Hamilton Steelmaking Operations

The Corporation allocates 14% of its Hamilton steelmaking profits before income taxes or a minimum payment of three times the contributions made by members, to the Dofasco Employees' Savings and Profit Sharing Funds and the Dofasco Employees' Deferred Profit Sharing Plan, to be shared among Hamilton steelmaking employees. A portion of the annual profit sharing allocation is funded through the creation of a defined contribution pension component within the Dofasco Supplementary Retirement Income Plan.

15. Employee Benefits

The Corporation has a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to substantially all of the employees. Such plans include the Dofasco Employees' Savings and Profit Sharing Funds (note 14).

The total expense for the Corporation's defined contribution plan was $12.5 million (2000 – $23.2 million). Total assets and obligations for these plans at December 31 amount to $895.8 million (2000 – $821.9 million).

The information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pensions		Other Benefit Plans	
	2001	2000	2001	2000
Change in benefit obligation				
Benefit obligation – beginning of year	$ 785.8	$ 720.6	$ 384.4	$ 329.2
Current service cost (employer)	19.1	17.1	7.7	6.7
Interest cost	54.0	49.0	26.0	22.4
Plan amendments	13.8	7.3	5.6	0.9
Benefits paid	(44.9)	(43.7)	(13.2)	(12.1)
Actuarial loss	34.3	35.5	0.6	37.3
Benefit obligation – end of year	$ 862.1	$ 785.8	$ 411.1	$ 384.4
Change in plan assets				
Market value of plan assets – beginning of year	$ 1,008.6	$ 982.3	$ 0.8	$ 0.8
Actual return on plan assets	17.9	86.5	—	—
Employer contributions	4.6	4.0	13.2	12.0
Benefits paid	(44.9)	(43.7)	(13.2)	(12.0)
Transfer to defined contribution plan	(9.1)	(20.2)	—	—
Actual plan expenses	(0.4)	(0.3)	—	—
Market value of plan assets – end of year	$ 976.7	$ 1,008.6	$ 0.8	$ 0.8
Reconciliation of funded status				
Funded status – surplus (deficit)	$ 114.6	$ 222.8	$ (410.3)	$ (383.6)
Employer contributions after measurement date	1.5	0.7	3.0	2.9
Unamortized transitional asset	(203.9)	(218.0)	—	—
Unamortized past service costs	22.4	10.5	6.4	0.9
Unamortized net actuarial loss	120.6	25.7	40.0	38.2
Accrued benefit asset (liability)	$ 55.2	$ 41.7	$ (360.9)	$ (341.6)

Of the other benefit plans, $13.9 million of the accrued benefit liability (2000 – $15.5 million) is included in current liabilities.

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of September 30):

	Pensions		Other Benefit Plans	
	2001	2000	2001	2000
Discount rate	7.00%	6.75%	7.00%	6.75%
Expected long-term rate of return on plan assets	8.00%	8.00%	—	—
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

For measurement purposes, a 4.0 to 8.8 percent annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for 2001 (2000 – 4.0 to 8.3 percent). The rate was assumed to decrease gradually to 4.0 percent for 2006 and remain at that level thereafter.

The Corporation's net benefit plan expense is as follows:

	Pensions		Other Benefit Plans	
	2001	2000	2001	2000
Components of defined benefit plan expense				
Current service cost	$ 19.1	$ 17.1	$ 7.7	$ 6.7
Interest cost	54.0	49.0	26.0	22.4
Expected return on plan assets	(78.4)	(78.9)	(0.1)	(0.1)
Amortization of transitional asset	(14.1)	(13.7)	—	—
Amortization of past service costs	1.9	—	0.1	—
Amortization of net actuarial loss	0.3	—	(1.1)	0.5
	$ (17.2)	$ (26.5)	$ 32.6	$ 29.5

16. Financial Instruments

The Corporation utilizes financial instruments to manage the risk associated with fluctuations in interest rates, foreign exchange rates and commodity prices.

The Corporation has entered into foreign exchange contracts with an aggregate amount of U.S. $58.0 million as at December 31, 2001 (2000 – U.S. $82.1 million). These contracts mature at the latest on November 5, 2002 at exchange rates varying between Cdn. $1.5027 and Cdn. $1.6010.

Commodity price swap contracts are used to hedge the cost of certain raw materials. As at December 31, 2001, the aggregate notional amount of all contracts outstanding was U.S. $18.5 million (2000 – U.S. $8.6 million) expiring at various dates through to June 30, 2003.

There was no significant unrealized gain or loss on these financial instruments as at December 31, 2001. The Corporation believes that its exposure to credit and market risks for these instruments is negligible. It does not hold or issue derivative financial instruments for trading or speculative purposes.

17. Currency Translation Adjustment

Unrealized currency translation adjustments, which arise on the translation to Canadian dollars of assets and liabilities of the Company's self-sustaining foreign operations resulted in an unrealized currency translation gain of $19.3 million for the year ended December 31, 2001. The unrealized gain resulted primarily from the weakening of the Canadian dollar against the U.S. dollar during the year.

18. Segmented Information

The Corporation has three reportable segments as follows:

- Steel operations – includes Hamilton operations, Dofasco USA, Powerlasers, DoSol Galva, Dofasco de Mexico and Dofasco's share of Baycoat, DNN, Sorevco and Wabush which are primarily engaged in flat rolled steel production and sales
- Gallatin – joint venture minimill in the U.S. which produces and sells hot rolled steel
- Quebec Cartier Mining (QCM) – iron ore production and sales

Inter-segment sales are recorded at market value.

	2001				
(in millions)	Steel Operations	Gallatin	QCM	Intercompany Elimination	Consol. Total
Sales to external customers	$ 2,646.0	$ 215.9	$ 100.6	$ —	$ 2,962.5
Inter-segment sales	—	19.3	98.5	(117.8)	—
Total sales	2,646.0	235.2	199.1	(117.8)	2,962.5
Gross income (loss)	362.0	(5.6)	7.1	—	363.5
Depreciation and amortization	201.3	23.6	28.7	—	253.6
Interest on long-term debt	54.8	0.3	4.2	—	59.3
Interest and other income	(4.7)	—	(1.0)	—	(5.7)
Income (loss) before income taxes	110.6	(29.5)	(24.8)	—	56.3
Segment assets	2,838.1	332.5	340.4	(1.3)	3,509.7
Expenditures for fixed assets	186.9	4.2	12.8	—	203.9
(in millions)	2000				
Sales to external customers	$ 2,805.0	$ 237.6	$ 158.5	$ —	$ 3,201.1
Inter-segment sales	—	28.5	111.1	(139.6)	—
Total sales	2,805.0	266.1	269.6	(139.6)	3,201.1
Gross income	487.2	36.1	39.8	(2.6)	560.5
Depreciation and amortization	202.5	21.6	30.0	—	254.1
Interest on long-term debt	56.1	0.4	5.2	—	61.7
Interest and other income	(15.0)	—	(0.9)	—	(15.9)
Income before income taxes	243.6	14.1	5.5	(2.6)	260.6
Segment assets	2,831.2	337.2	362.6	(7.4)	3,523.6
Expenditures for fixed assets	192.8	9.6	13.6	—	216.0

Geographic information –

	2001		2000	
(in millions)	Sales	Fixed Assets	Sales	Fixed Assets
Canada	$ 2,237.2	$ 1,662.0	$ 2,439.8	$ 1,736.9
United States	521.5	253.8	561.7	258.0
Other countries	203.8	54.1	199.6	8.7
Total	$ 2,962.5	$ 1,969.9	$ 3,201.1	$ 2,003.6

Customer segments –

There are no customers which account for 10% or more of consolidated revenue in 2001 or 2000.

To the Shareholders of Dofasco Inc.

We have audited the consolidated balance sheets of Dofasco Inc. as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dofasco Inc. as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Mississauga, Canada
January 31, 2002

Ernst & Young LLP
Chartered Accountants

The accompanying financial statements of Dofasco Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the financial information presented throughout the annual report is consistent with the financial statements.

Dofasco Inc. maintains systems of internal accounting and administrative controls which are of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

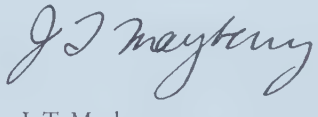
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are outside directors. The Committee meets periodically with management, as well as with internal and external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee has reported its findings to the Board which has approved the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited on behalf of the shareholders by the external auditors, Ernst & Young, in accordance with Canadian generally accepted auditing standards. Ernst & Young has full and free access to the Audit Committee.



B. P. Solski
Executive Vice President – Finance



J. T. Mayberry
President and Chief Executive Officer

January 31, 2002

	2001	2000	1999
Sales	$ 2,962.5	3,201.1	3,142.3
Cost of sales (before the following item)	$ 2,580.4	2,601.8	2,426.0
Employees' profit sharing plan	$ 18.6	38.8	53.3
Gross income	$ 363.5	560.5	663.0
Depreciation and amortization	$ 253.6	254.1	256.0
Operating income	$ 109.9	306.4	407.0
Interest on long-term debt	$ 59.3	61.7	60.8
Interest and other income	$ (5.7)	(15.9)	(10.2)
Income (loss) before unusual items and income taxes	$ 56.3	260.6	356.4
Unusual items	$ —	—	31.8
Income tax expense (recovery)	$ 29.3	78.2	133.3
Minority interest	$ 0.3	(6.3)	(5.9)
Income (loss) from equity investments		—	—
Net income (loss) for the year	$ 26.7	188.7	260.8
Net income (loss) attributable to common shares†	$ 26.1	188.1	260.2
Current assets	$ 1,353.8	1,355.0	1,362.2
Fixed assets – land, buildings and equipment, at cost	$ 5,383.3	5,184.7	4,947.1
– accumulated depreciation	$ 3,413.4	3,181.1	2,960.3
Other assets	$ 186.0	165.0	133.8
Current liabilities	$ 475.0	512.1	585.7
Long-term liabilities	$ 1,057.0	968.3	854.1
Future income tax liabilities	$ 137.8	170.3	208.9
Minority interest	$ 22.3	20.4	21.6
Shareholders' equity	$ 1,817.6	1,852.5	1,812.5
Raw steel production and purchased semi-finished steel processed (thousands of net tons)	4,955	5,009	4,833
Steel shipments (thousands of net tons)	4,375	4,416	4,449
Earnings (loss) per common share†	$ 0.35	2.47	3.16
Net income – percent of sales†	0.9%	5.9%	8.3%
Net income after adding back interest on long-term debt (after taxes) – percent of average capital**	2.6%	9.2%	12.2%
Net income – percent of average common shareholders' equity†	1.4%	10.3%	14.5%
Net book value per common share	$ 24.09	24.56	22.90
Dividends declared – per common share	$ 1.08	1.06	1.00
– per Class A preferred share	$ 4.75	4.75	4.75
– per Class C, $2.60 preferred share	$ —	—	—
Earnings reinvested in (withdrawn from) the business*	$ (54.8)	52.1	83.3
Capital expenditures*	$ 203.9	216.0	186.0
Total dividends declared* – preferred	$ 0.6	0.6	0.6
– common	$ 80.9	80.6	82.2
Average number of common shares outstanding (thousands)	74,944	76,293	82,296

* in millions
** capital = shareholders' equity plus long-term debt (including current portion)
*** Restated to reflect changes in accounting related to income taxes and post-employment benefits.
† after preferred dividends

For 1994 and subsequent years, Dofasco has reported its 50% interest in the Quebec Cartier Mining Company using the proportionate consolidation method.

1998***	1997	1996	1995	1994	1993	1992	1991
2,982.2	3,070.4	2,942.0	2,635.9	2,424.8	2,102.9	1,952.9	2,055.8
2,359.6	2,439.9	2,317.0	2,047.1	1,936.2	1,778.2	1,737.0	1,842.4
38.1	34.2	40.8	45.7	23.6	7.1	8.3	10.4
584.5	596.3	584.2	543.1	465.0	317.6	207.6	203.0
248.3	252.7	228.2	207.8	211.1	179.8	166.8	157.0
336.2	343.6	356.0	335.3	253.9	137.8	40.8	46.0
69.8	75.8	79.3	86.0	88.0	89.2	90.8	92.6
(20.0)	(25.9)	(26.8)	(40.1)	(28.3)	(17.3)	(11.8)	(8.4)
286.4	293.7	303.5	289.4	194.2	65.9	(38.2)	(38.2)
—	—	—	—	67.0	74.8	(323.9)	(52.8)
112.5	100.5	96.2	93.6	40.3	(2.7)	(165.5)	(54.8)
(0.3)	—	—	—	—	—	—	—
—	—	—	—	—	(4.8)	(10.5)	11.2
174.2	193.2	207.3	195.8	220.9	138.6	(207.1)	(25.0)
173.6	181.7	181.2	169.4	194.2	111.9	(233.8)	(51.7)
1,246.3	1,372.1	1,511.5	1,599.7	1,533.0	1,158.1	1,111.2	1,038.7
4,786.0	4,568.5	4,585.4	4,352.5	4,139.1	3,685.2	3,870.9	3,861.6
2,731.8	2,534.3	2,387.8	2,218.1	2,029.0	1,768.5	1,867.1	1,654.7
118.2	69.6	65.4	65.9	69.3	132.3	139.6	166.9
459.4	554.1	474.4	546.1	411.9	295.3	381.6	295.4
911.8	849.7	1,013.9	1,025.6	1,136.7	1,062.0	1,110.2	970.6
227.8	316.8	316.0	353.9	399.4	367.2	393.8	539.3
22.7	—	—	—	—	—	—	—
1,797.0	1,755.3	1,970.2	1,874.4	1,764.4	1,482.6	1,369.0	1,607.2
4,794	4,621	4,274	3,746	3,507	3,884	4,089	4,094
4,056	4,131	3,985	3,181	3,076	3,350	3,419	3,375
2.02	2.12	2.12	1.98	2.33	1.41	(2.96)	(0.73)
5.8%	5.9%	6.2%	6.4%	8.0%	5.3%	N/A	N/A
8.7%	9.0%	9.4%	9.3%	10.8%	8.4%	N/A	1.3%
9.8%	10.7%	11.4%	11.4%	15.1%	10.3%	N/A	N/A
20.97	20.27	19.16	18.00	16.80	14.39	12.98	16.18
1.00	1.00	0.85	0.80	0.30	—	0.15	0.80
4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
—	1.11	2.60	2.60	2.60	2.60	2.60	2.60
80.7	95.9	95.7	97.9	168.8	111.9	(245.6)	(108.1)
265.7	119.6	293.7	230.1	192.8	89.8	106.9	250.5
0.6	11.5	26.1	26.4	26.7	26.7	26.7	26.7
85.7	85.8	72.7	68.4	25.4	—	11.8	56.4
85,748	85,799	85,615	85,525	83,433	79,394	79,084	70,554

The objective of Dofasco's Board of Directors is to maximize shareholder value while governing the company's activities so as to promote its long-term best interests in a manner consistent with good corporate citizenship, including fair treatment of employees, customers, suppliers and the communities in which Dofasco operates.

Dofasco's board has a formal mandate that includes:

- adopting a strategic planning process for the company;
- approving corporate objectives and the operating and financial plans to achieve them;
- evaluating the performance of the company and its senior management;
- approving the company's annual financial statements and verifying the integrity of the company's internal financial, control and management information systems;
- verifying the identification and management of the principal risks to the company's business;
- selecting the Chief Executive Officer, approving the selection of other senior executives and monitoring senior management succession; and
- approving a policy for the company's communications with shareholders and other stakeholders.

iance Practices

Dofasco has its own comprehensive set of corporate governance guidelines and policies that are designed to permit the board to represent the shareholders' interests. These policies and guidelines are regularly reviewed, evaluated and modified to meet the changing needs of the company and the changing expectations of the investment community. Copies of "Dofasco Board Guidelines on Corporate Governance Issues" are available upon request, or on the Dofasco website at www.dofasco.ca.

Like most major Canadian corporations, Dofasco uses the corporate governance guidelines advocated by The Toronto Stock Exchange (TSE) as a compliance template. A detailed discussion of Dofasco's compliance with the TSE guidelines in 2001 is included in the company's 2002 Management Proxy Circular.

In 2001, the Joint Committee on Corporate Governance of the Canadian Institute of Chartered Accountants, the Canadian Venture Exchange and the TSE issued a report with 15 corporate governance recommendations. Dofasco's Nominating and Corporate Governance Committee has reviewed the Joint Committee's report and believes that Dofasco's practices are consistent with the Joint Committee's recommendations. Further review will take place when the TSE determines its response to the recommendations.

Composition of the Board

The TSE recommends that boards be constituted with a majority of individuals who are "unrelated" to the company – that is, independent from management and free from any interest which could reasonably be perceived to interfere with the director's ability to act in the best interests of the company.

Through the Nominating and Corporate Governance Committee, Dofasco's board annually reviews its size and composition with a view to maintaining an appropriate mix of expertise and experience to support Dofasco's strategic direction and operating needs.

Dofasco's Articles of Incorporation provide that the board consist of between 8 and 15 directors. In 2001, Dofasco's board was comprised of 14 directors, 13 of whom were unrelated. John Mayberry, President and Chief Executive Officer, was the only related director. Average attendance at board meetings by directors in 2001 was 94%.

Board Committees

There are currently four committees of Dofasco's board: Audit; Environment, Health and Safety; Human Resources; and Nominating and Corporate Governance. This structure may change from time to time as the board considers which of its responsibilities can best be fulfilled through detailed review of matters in committee. Whenever a committee is established, it operates according to a board-approved written mandate outlining its duties and responsibilities.

Dofasco practises a periodic rotation in committee chairs and membership in a way that recognizes and balances the need for renewal of ideas with continuity of functional expertise. The Nominating and Corporate Governance Committee annually proposes the chair and membership of each committee to the board. All unrelated directors participate on at least one committee.

The composition, mandates and activities of the committees during 2001 are set out in the Management Proxy Circular. Average attendance at committee meetings by directors in 2001 was 91%.

Performance Evaluation

Dofasco's board has established a practice of continually evaluating its own collective performance and the performance of board committees by soliciting input from every director as well as from members of senior management who regularly attend board meetings. As well, directors are annually provided with self-evaluation questionnaires to help them review their own contributions to the board and identify areas for personal improvement. Periodically, the Chair of the board has private discussions with individual directors to review their personal contributions to the overall functioning of the board.

Compensation of Directors

Compensation paid to directors is regularly reviewed by the Nominating and Corporate Governance Committee, taking into account the forms and amount of compensation paid to directors of comparable Canadian public companies and Dofasco's expectations of directors with respect to their commitment of time. Details of the amounts paid to Dofasco directors (including board and committee retainers and meeting fees) are set out in the Management Proxy Circular.

Dofasco encourages ownership of the company's shares by directors and requires that all non-employee directors allocate at least 25% of their annual retainer fees to the purchase of Dofasco shares.

DIRECTORS

John E. Akitt
Corporate Director
and Consultant
Bonita Springs, Florida
Environment, Health & Safety Committee (Chair)

Sylvia D. Chrominska
Executive Vice-President,
Human Resources
The Bank of Nova Scotia
Toronto, Ontario
Audit Committee
Human Resources Committee

Eleanor R. Clitheroe
President and
Chief Executive Officer
Hydro One Inc.
Toronto, Ontario
Environment, Health & Safety Committee
Human Resources Committee

William E. Coyne
Corporate Director
Naples, Florida
Environment, Health & Safety Committee

Roger G. Doe
Corporate Director
Port Perry, Ontario
Nominating and Corporate Governance Committee (Chair)

Robert C. Dowsett
President
Robert Dowsett Consulting
Toronto, Ontario
Audit Committee

Richard L. George
President and
Chief Executive Officer
Suncor Energy Inc.
Calgary, Alberta
Human Resources Committee (Chair)

Charles H. Hantho
Chair of the Board
Dofasco Inc.
Hamilton, Ontario
Audit Committee
Environment, Health & Safety Committee
Human Resources Committee
Nominating and Corporate Governance Committee

Dezsö J. Horváth
Dean & Tanna H. Schulich
Chair in Strategic Management
Schulich School of Business
York University
Toronto, Ontario
Audit Committee
Environment, Health & Safety Committee

Frank H. Logan
Corporate Director
Toronto, Ontario
Audit Committee
Nominating and Corporate Governance Committee

Brian F. MacNeill
Chairman
Petro-Canada
Calgary, Alberta
Human Resources Committee
Nominating and Corporate Governance Committee

Peter C. Maurice
Corporate Director
London, Ontario
Audit Committee (Chair)
Nominating and Corporate Governance Committee

John T. Mayberry
President and
Chief Executive Officer
Dofasco Inc.
Hamilton, Ontario

David R. McCamus
Corporate Director
Oakville, Ontario
Human Resources Committee

OFFICERS



Charles H. Hantho
Chair of the Board



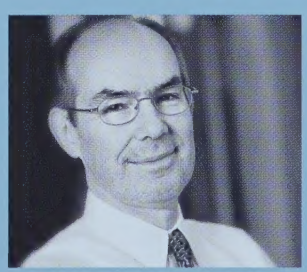
Donald A. Pether
Chief Operating Officer



Joan M. H. Weppler
Vice President –
Corporate Administration
and General Counsel



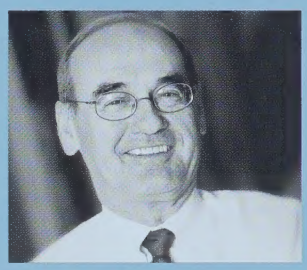
David S. Borsellino
Vice President – Manufacturing



L. Allen Root
Vice President – Commercial



John T. Mayberry
President and
Chief Executive Officer



Bill P. Solski
Executive Vice President –
Finance



J. Norman Lockington
Vice President – Technology

Raymond P. d'Andrade
Treasurer

Urmas Soomet
Secretary and
Director, Legal Services

Robert W. Nuttall
Comptroller

SUBSIDIARIES

Dofasco USA Inc., Southfield, Michigan	100 %	Storage and processing of steel and by-products.
Dofasco de Mexico S.A. de C.V., Monterrey, Mexico	100 %	Tube mill and steel processing facility.
Powerlasers, Kitchener and Concord, Ontario; Pioneer, Ohio	100 %	Laser-welded automotive blanks and related components.

MINING AND RELATED VENTURES

Quebec Cartier Mining Company, Fermont and Port Cartier, Quebec	50 %	Iron ore pellets and concentrates.
Wabush Mines, Wabush, Nfld.; Pointe Noire, Quebec	24.3 %	Iron ore pellets.

JOINT VENTURES

Baycoat, Hamilton, Ontario	50 %	Prepainted flat rolled steels.
DNN Galvanizing Limited Partnership, Windsor, Ontario	50 %	Hot dip galvanized flat rolled steels.
DoSol Galva Limited Partnership, Hamilton, Ontario	80 %	Hot dip galvanized flat rolled steels.
Gallatin Steel Company, Gallatin County, Kentucky	50 %	Hot rolled steels.
Sorevco and Company Limited, Coteau-du-Lac, Quebec	50 %	Hot dip galvanized flat rolled steels.

STOCK MARKET INFORMATION

COMMON SHARES

Year	High†	Low†	Shares Traded
2001	$ 27.35	$ 20.00	54,814,758
2000	$ 30.60	$ 19.05	64,471,944
1999	$ 29.50	$ 17.75	67,927,146
1998	$ 26.65	$ 15.25	63,561,777
1997	$ 31.80	$ 20.00	85,174,286

† based on board lots traded

VALUATION DAY PRICES

December 22, 1971:

Common – $25.00 (after giving effect to the 3:1 stock split in 1984, $8.33)

4 3/4% Class A Preferred – $74.00

Closing price on February 22, 1994:

Common – $24.125

4 3/4% Class A Preferred – $64.00

STOCK EXCHANGE LISTINGS

Common shares

Stock Symbol: DFS; CUSIP No. 256900-70-5

Listed: The Toronto Stock Exchange

Preferred shares

4 3/4% Cumulative Redeemable Preferred Shares, Series A

Stock Symbol: DFS.PR.A; CUSIP No. 256900-30-9

Listed: The Toronto Stock Exchange

Corporate Headquarters
Dofasco Inc.
1330 Burlington Street East
P.O. Box 2460
Hamilton, Ontario
Canada L8N 3J5

Annual Meeting
The Annual and Special Meeting of Shareholders will be held on Friday, May 3, 2002. The meeting will take place at the du Maurier Ltd. Centre, 190 King William Street, Hamilton, Ontario, at 12:00 noon.

Stock Transfer Agent and Registrars
CIBC Mellon Trust Company
Toronto, Montreal,
Vancouver, Calgary

The Bank of Nova Scotia Trust Company
New York, New York
(Common Shares and 4 3/4% Cumulative Redeemable Preferred Shares, Series A)

For more information concerning share ownership or dividends, please contact:
CIBC Mellon Trust Company
320 Bay Street
P.O. Box 1
Toronto, Ontario
Canada M5H 4A6
Answerline: (416) 643-5500
Toll Free: 1-800-387-0825
E-mail: inquiries@cibcmellon.ca

Dividend Reinvestment and Share Purchase Plan
Dofasco's dividend reinvestment and share purchase plan allows Canadian residents who are registered shareholders of Dofasco common and preferred shares to purchase additional common shares by reinvesting their cash dividends and to invest up to $50,000 each fiscal year to purchase additional Dofasco common shares at market value.

Qualified shareholders interested in participating in the Dividend Reinvestment and Share Purchase Plan should complete and mail an authorization form to:
CIBC Mellon Trust Company
Dividend Reinvestment Department
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
Canada M5C 2W9

Authorization forms are available from the Transfer Agent, from Dofasco's Corporate Secretary and from the Investors section of the Dofasco website at www.dofasco.ca.

Electronic Delivery and Electronic Voting
Dofasco shareholders may now elect to receive Dofasco corporate documents (such as Quarterly and Annual Reports, and the Management Proxy Circular) in electronic form on the Internet rather than in paper copy through the mail.

Shareholders may also choose to send proxy voting instructions on the Internet rather than voting by telephone, facsimile, or mail.

To take advantage of these convenient services, registered shareholders should contact the Transfer Agent. Beneficial shareholders should contact the broker or financial intermediary that manages the investment account within which the Dofasco shares are held.

Inquiries
The Corporate Secretary
Dofasco Inc.
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Canada L8N 3J5
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corpsec@dofasco.ca
www.dofasco.ca

Version française du rapport
On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétaire de la Société.

90 YEARS DOFASCO™
1912 - 2002

Our Annual Report is printed on 55% recycled paper with a minimum specification of 10% post-consumer content and is 100% recyclable.

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DOFASCO
Our product is steel. Our strength is people.

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